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EDITED BY

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SERIES IN COMMERCE, CIVICS AND TECHNOLOGY

BOOKKEEPING AND ACCOUNTING

BY

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PREFACE

Everyday business consists, in the main, of buying and selling, receiving and disbursing money, issuing and redeeming notes, and of other similar activities. These activities are known as transactions, and it is the function of bookkeeping to record these transactions clearly, concisely and completely.

The modern business man seeks "short cuts." He has no sympathy with circumlocution in speech or in written records. To him bookkeeping is simple. It is merely a shorthand transcript of the occurrences in which he has played an important part. He feels that, as he has learned, without prolonged study, to understand the story written in his books—a story which to him is so simple—there is very little warrant for long-drawn-out courses of schooling to train his clerks and assistants. And, in truth, there is much justification for his point of view.

Various mechanical bookkeeping devices are on the market. "Bookkeeping by machinery," as one advertiser styles his particular product, has secured for itself a firm place in the business offices of America. But no one should be led to believe that any machine, at present available, has made bookkeeping obsolete. Machinery reduces the routine bookkeeping burden to a minimum, but it makes no attempt to supplant knowledge of principles and human thought. While mechanical devices have made easier the task of the bookkeeper, they have at the same time served to accentuate the need of a thorough understanding of the science of accounts.

The author, a number of years ago, acquired considerable experience in presenting the subject of bookkeeping to immature students as well as to adults. His experience led him irresistibly to the conclusion that the subject of bookkeeping may be so simplified that, while retaining all its necessary comprehensiveness, it may, nevertheless, be imparted to willing minds within a period of time much shorter than that hitherto devoted to it in the school curriculum. He believes that the way to shorten the period of school study has been clearly indicated in the present text. The methods which he has employed are not unique;

they consist merely of those characteristics which should be applicable to every business textbook, namely:

(*a*) Simplicity of presentation,
(*b*) Logical development,
(*c*) Abundance of essential drill.

The aim of the present text has thus been implied. It is to reduce the subject of bookkeeping to its simplest terms. This has been accomplished by taking up each subject concretely and by presenting one topic at a time. Thus, when the principles of bookkeeping are discussed in Part I, the reader's mind, focused only upon the topic discussed, is free to grapple with the matter under presentation, without being diverted from its goal by such matters as a treatment of the business forms employed, or the solving of either involved or lengthy arithmetical problems. In this connection, the account, which is the fundamental concept in technical bookkeeping practice, is emphasized and stressed and made the basis of double entry.

Subsequent divisions of the book are made the medium for the introduction of labor-saving devices, and for specialized phases of bookkeeping applicable to partnerships, corporations, and to small concerns employing incomplete or single-entry bookkeeping.

It will be found that "Bookkeeping and Accounting" is well adapted to all situations requiring a bookkeeping text. Its language is simple enough to be understood by the child in the upper grammar grades. At the same time, it is not so simple as to be "too easy" for the business man, or the college or the university student. This statement is made advisedly, because the manuscript, in part, has successfully been employed as the basis for courses in the grammar grades of public schools, the home study work of lawyers preparing for examination of witnesses in interpreting books and accounts, lectures to business men who wished to understand bookkeeping rather than to practice it, and for high school, college and university classes.

The most recent use to which this book was put was in connection with the War Emergency Courses in Bookkeeping and Office Practice offered under the joint auspices of the Division of Vocational Subjects and Civic Administration of the College of the City of New York, and the Special Committee on Emergency Training of which Felix M. Warburg, of Kuhn, Loeb & Company, was the Honorary Chairman. Here, Miss H. B. Lowenstein, C. P. A., LL.B., used the text as the basis for the outline of lectures for the Emergency Courses in question, and a large group of adult students, men and women, were taught the essen-

tials of bookkeeping in nine one-hour lectures, so that many of them were enabled to take the places of those bookkeepers who were called to the defense of the Nation.

This book may be used as the basic text in the presentation of bookkeeping to all grades of students, regardless of what other bookkeeping text may be employed. The experience of the author convinces him that, while some pedagogic advantage may be derived by presenting bookkeeping principles through the medium of the special set of books, as, for example, through the dry goods set, or the grocery or department store set, much time is saved and much effort conserved by presenting the broader aspects of the subject so as to make possible a universal application, after sufficient concrete drill has been afforded. The argument that drill on special sets is indispensable is not valid. It is seldom true that the bookkeeper may be transferred from the office of one bank to another and apply the bookkeeping methods of the first to the second. Many business men are of the opinion that a thorough training in basic principles of bookkeeping better fits an applicant for service in a particular concern than does the more specialized training and experience acquired only in the office of a competitor.

Where schools make use of special sets, it is the opinion of the author that they should be given to advanced students only, and then with due regard to the requirements of the community in which the school is situated. This is particularly true because a student who really understands bookkeeping can be taught in a very few minutes the special features of any particular set of books. Such special sets have not been included in this text, because the author knows that excellent work along these lines has been done by others, and in sufficient variety for present needs. Accordingly, instructors and students who wish practice in any particular business are referred to the textbooks now on the market. These texts should be employed as supplementary to the principles treated in this book.

Part VI of this book deals with business practice, and Part IX combines business practice and bookkeeping. These sections may be introduced, at the option of the instructor, at any point in the development of the subject. The reader who is familiar with bookkeeping texts will doubtless be pleased at the number of drill exercises included. The subject of bookkeeping, as treated in this text, might be understood without the solution of a single exercise. The number of exercises actually solved by the student should depend upon circumstances. In each case, the decision rests with the instructor.

The publishers have produced blanks suitable for the solution of the

various exercises contained in the book. These blanks are designed to save time in the preparation of forms and papers, but their use is entirely optional.

One thought that has been deeply impressed upon the mind of the author is that a topic thoroughly understood need not be memorized. On the basis of this conclusion, the appeal throughout this text has been made to the understanding of the pupil, rather than to his memory; therefore, few definitions, and fewer rules are presented. Definitions have, in the main, been avoided because it is well known that many persons, especially students, are prone to memorize rather than to learn. After the preliminary stage had been reached, a general rule for the analysis (journalizing or debiting and crediting) of transactions was derived and rigorously applied.

It is several years now, since the original manuscript, from which the book was finally prepared, was written. Since then it has been variously employed, in part as indicated previously. The author, despite the stress of professional engagements, was impelled to complete the task which he had set for himself years ago, because those who used the manuscript were kind enough to lead him to believe that it filled a real want. It is thus offered to the public in the hope that the mystery which, in the minds of many, surrounds bookkeeping will, by its aid, rapidly be dispelled. It is also believed that the text will make possible the curtailing of school courses in bookkeeping, so that, while those who wish a knowledge of bookkeeping merely for its own sake may acquire it without much expenditure of time, those who wish to pursue advanced phases of the work may reach the comparatively advanced study of Accounting and Auditing in a much shorter time than has hitherto been possible.

The completion of the task is due to the coöperation of many friends. My professional colleagues and staff, especially Mr. George Kent Hinds, C. P. A., LL.B., and Mr. Myron A. Finke, C. P. A., rendered valuable service throughout the production of the text. Miss Anna F. Guilfoy, of P. S. 83, Queens, and Miss Eva G. Turner, of P. S. 122, Brooklyn, read much of the proofs, solved practically all of the exercises and prepared many of the blanks. Miss Agnes M. Loughran, of Eastern District High School, and Mr. George Kent Hinds, prepared many of the exercises.

Mr. Warren L. Starkey, Chairman of the Commercial Department, Jamaica High School; Mr. Harry W. Leyenberger, Chairman of the Commercial Department, Bushwick High School; Mr. Gilbert J. Raynor, Chairman of the Commercial Department, Commercial High

School; and Prof. George Monroe Brett, instructor of accounting at the College of the City of New York, read some of the proofs and made valuable suggestions. The script illustrations were prepared by Mr. William H. Berger, of the Commercial Department of the Washington Irving High School.

My secretary, Miss Celia Goldberg, had full charge of the production of the book, and much more than can be expressed in words is due to her conscientious, faithful and intelligent efforts.

Thanks are also due to the staff of my publishers for their painstaking, intelligent and cordial coöperation under very trying conditions.

JOSEPH J. KLEIN.

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PART I

ELEMENTARY BOOKKEEPING

Part I is intended to present the basic principles of double entry bookkeeping so that the reader may readily answer two all-important questions:

(*a*) *What is the present financial condition of this business, or how much is it worth today?*

(*b*) *How is this business getting along, or what progress is it making?*

1. THE BASIS

BUSINESS, as it is popularly understood, comprises the commercial activities of the community. Bookkeeping consists of *recording* the financial doings or acts of business men. These acts are known as transactions. Simple illustrations of transactions are buying, selling, paying a debt, paying wages, etc. An elementary knowledge of arithmetic is all that is necessary to comprehend the subject as it is about to be presented.

As an illustration of how simple a subject bookkeeping may be made, let us consider the following record taken from a boy's diary:

May 15, 19—, father gave me \$5.00 as a birthday gift. Received \$3.00 from mother and \$2.50 from Uncle Tom.
16, 19—, bought a pair of skates for \$1.80, and paid \$.50 to see the baseball game.
17, 19—, earned \$.25 for delivering a package. Sold my skates to Bob Sommer for \$1.25. Bought a box kite for \$.35.

If the boy in question wished to test the correctness of the amount of money he had left, he might proceed as follows:

I received:		I spent:	
\$5.00		\$1.80	
3.00		.50	
2.50		.35	
.25		\$2.65	Total amount spent
1.25			
\$12.00	Total amount received		

Total receipts	\$12.00
Total expenditures	2.65
Balance	\$9.35

The bookkeeper would arrange these figures in a similar way, but he would employ specially ruled paper. His record is herewith shown:

Cash

19—					19—				
May	15		5	00	May	16		1	80
	15		3	00		16			50
	15		2	50		17			35
	17			25					
	17		1	25					

This record of money received and spent—this *account* of cash—is known as a Cash account. Note that, as in the first case, the receipts are grouped in the first money column, the payments in the second. Note, also, that the term "Cash" is used as a heading.

Where were the receipts placed? In the first or left-hand column. The bookkeeper would say in the *debit* column, and for our purpose debit and left-hand are synonymous. Similarly, the bookkeeper refers to the other column as the *credit* column. *Dr.* is the abbreviation for debit, and *Cr.* for credit. We say that Cash account is debited for $5.00, $3.00, $2.50, $.25 and $1.25, respectively. Similarly Cash account is credited for $1.80, $.50 and $.35, respectively.

Inasmuch as Cash account is universally debited for money received and credited for money spent, it is well to become familiar with the following rules or agreements:

Ia. Debit Cash Account Whenever Our Business Receives Money.
IIa. Credit Cash Account Whenever Our Business Pays Money.

The student should now "enter" in the Cash account the proper debits and credits for the following list of transactions:

June	1	Sold 10 bbls. apples @ $4.00, for cash
	3	Sold 10 bbls. apples @ $5.00, for cash
	4	Bot. 20 bbls. potatoes @ $3.00, for cash
	7	Sold 5 bbls. potatoes @ $4.00, and 5 bbls. @ $5.00
	8	Paid clerk's salary, $10.00
	10	Sold 10 bbls. potatoes @ $4.50

Compare your solution with the following:

Cash

19—					19—				
June	1				June	4		60	00
	3					8		10	00
	7		40	00					
	10		[illegible]	00					

Questions

1. What is a Cash account? Its function?
2. What items are entered on the debit side? On the credit side?
3. What does the balance indicate?
4. Can the credit side of Cash account be greater than the debit side? Explain.

Exercise 1A. Drill

1. Received $50.00 and $200.00. Spent $30.00 and $30.00. Balance?
2. A Cash account is debited for $1,200.00 and credited for $850.00. Balance?
3. The debits in a Cash account equal $1,800.00. The balance is $300.00, Total of the credits?
4. Cash debits, Feb. 1 to Feb. 6, $325.00; Feb. 8 to Feb. 13, $225.00; Feb. 15 to Feb. 20, $350.00; total debits, $1,200.00. Debits last week of February?
5. Total cash credits for the month were $1,800.00. During the first week spent $250.00; $500.00 during the second week; $350.00 during the last week. How much was credited during the rest of the month?
6. What is the difference between "Cash received $1,000.00" and "Cash debited $1,000.00"? What is the difference between "Cash paid out $600.00" and "Cash credited $600.00"?

Exercise 1B [1]

Show the Cash account resulting from the following transactions and determine the balance of cash on hand:

19—			
March	1	Recd. from Smith	$ 300.00
	3	Recd. from Brown	800.00
	4	Recd. from Thompson	600.00
	4	Smith gave us	500.00
	5	Lawson gave us	350.00
	7	Brown gave us	1,000.00
	9	Gave Jones	650.00
	9	Gave Sanders	700.00
	12	Paid Collar	275.00
	13	Paid Jones	325.00
	14	Recd. from Kahn	150.00
	14	Recd. from Hinds	65.00
	15	Paid Collins	1,000.00

[1] For additional exercises, see end of Part I.

2. DOUBLE ENTRY BOOKKEEPING

An examination of business transactions reveals the fact that throughout the economic world there exists an equivalence of exchanges. Accordingly, if we buy a pair of shoes for $5.00, we *part* with money, but *receive* in return an equivalent value; or, if we sell a book for $1.50, we *give* a book and *receive* money; or finally, if we employ a clerk we *obtain* services and *give* money. As it is the function of the bookkeeper to record *all* business transactions, it must be clear that the Cash account *alone* is not sufficient. It records the money received and spent, but it fails to account for the sources of the receipts and the causes for the disbursements. We are about to learn how to complete the partial record already presented.

Consider this transaction:

February 1, sold 10 bbls. flour @ $8.00, for cash.

We know that Cash account should be debited:

Cash [2]	
$80.00	

But how may we show that we parted with flour? Just as we keep an account of money or cash, so we also keep an account of flour or other *merchandise.* This account is called the *Merchandise* account,[3] and, before an entry is made therein, appears as follows:

Merchandise	

There can be only two kinds of entries in any account—a debit or a credit—and we must decide whether to debit or credit the Merchandise account as a result of selling ten barrels of flour. If we agree that Cash account should be debited to indicate the receipt of money, then it is quite natural to agree that a credit to Merchandise account will indicate the parting with goods or merchandise. The entries for the entire transaction are:

Cash	
$80.00	

Merchandise	
	$80.00

[2] For purposes of illustration it is not necessary to use the regular sheets of ruled paper. A so-called "T" account, properly headed or labeled, is sufficient to indicate the division into debits and credits.

[3] We might employ a Flour account for flour, a Shoe account for shoes, etc., but it is not customary in elementary bookkeeping to keep separate accounts for each kind of goods.

Now consider this transaction:

February 1, bought 10 bbls. flour @ $7.00, for cash.

We wish to call the attention of the student to a device which has proved very valuable in teaching bookkeeping. If you can picture or visualize what transpired in a given transaction, that is, if you really "see" the receiving and giving in any case, the solution is practically determined. To do so, imagine that you are viewing the transaction on a motion picture screen. In this case, you should see the merchandise received by us and the money paid by us. But for the money paid by us, we know that we must credit Cash account. What shall we do about the receipt of the flour? Do you not approve of a debit to Merchandise account? The solution then is:

Cash	
	$70.00

Merchandise	
$70.00	

If we consider the two foregoing transactions as having occurred in the same business, the entries to date would be:

Cash	
$80.00	$70.00

Merchandise	
$70.00	$80.00

Employing a Cash account and a Merchandise account, enter the following transactions:

April	1	Bot. 25 bbls. flour @ $6.00, for cash
	2	Bot. 20 bbls. potatoes @ $3.50, for cash
	4	Sold 10 bbls. potatoes @ $5.00, for cash
	5	Sold 10 bbls. flour @ $5.00, for cash
	7	Bot. 15 bbls. potatoes @ $4.00 and 10 bbls. @ $6.00, for cash
	9	Sold 20 bbls. potatoes @ $5.00, for cash
	10	Sold 20 bbls. flour @ $8.00, for cash
	12	Sold 5 bbls. potatoes @ $5.00 and 5 bbls. flour @ $8.00, for cash

By aid of the motion picture device, we are enabled to "see" that:

April	1	we recd. mdse.	$150.00;	and gave cash	$150.00
	2	we recd. mdse.	70.00;	and gave cash	70.00
	4	we recd. cash	50.00;	and gave mdse.	50.00
	5	we recd. cash	50.00;	and gave mdse.	50.00
	7	we recd. mdse.	120.00;	and gave cash	120.00
	9	we recd. cash	100.00;	and gave mdse.	100.00
	10	we recd. cash	160.00;	and gave mdse.	160.00
	12	we recd. cash	65.00;	and gave mdse.	65.00

Associating what is received with debit and what is given with credit, the student should enter the foregoing transactions on so-called ledger sheets, and then compare his solution with the following:

Cash

19—				19—			
April	4		50 00	April	1		150 00
	5		50 00		2		70 00
	9		100 00		7		120 00
	10		160 00				
	12		65 00				

Merchandise

19—				19—			
April	1		150 00	April	4		50 00
	2		70 00		5		50 00
	7		120 00		9		100 00
					10		160 00
					12		65 00

Observations.—

(a′) (Transaction of April 4)—We *debited* Cash account for $50.00 and at the same time *credited* another account (in this case Merchandise account) for $50.00.

(a″) (Transaction of April 9)—We *debited* Cash account for $100.00 and at the same time *credited* another account for $100.00.

(*b′*) (Transaction of April 1)—We *credited* Cash account for **$150.00** and at the same time *debited* another account (in this case Merchandise account) for $150.00.

(*b″*) (Transaction of April 7)—We *credited* Cash account for **$120.00** and at the same time *debited* another account for $120.00.

Conclusions.—

IA. Debit Cash Account Whenever Our Business Receives Money.

IB. At The Same Time, Credit Another Account For The Same Amount.

IIA. Credit Cash Account Whenever Our Business Gives Money.

IIB. At The Same Time, Debit Another Account For The Same Amount.

We are thus in a position to see that each transaction results in a debit of a certain amount and in a corresponding credit of the same amount. Now why should this be so? Simply because bookkeeping records business transactions; every business transaction, as we saw, is an exchange of equal values; the record, therefore, should show the equal values received and given. Such a complete record leads to the most fundamental principles of our subject:

Every Transaction Must Result In Debits And Credits Of Equal Amount.

Questions

1. Define the Merchandise account.
2. On which side are sales entered? Purchases?
3. How does the Merchandise account differ from the Cash account?
4. Why do we call our subject double entry bookkkeeping?
5. What is the fundamental principle of double entry bookkeeping?

Exercise 2A. Drill

1. Orally indicate the debits and credits in the following transactions:

   a. Bot. oats for cash ($500.00)
   b. Bot. flour for cash ($800.00)
   c. Sold salt for cash ($350.00)
   d. Sold wheat for cash ($1,000.00)
   e. Bot. salt for cash ($250.00)
   f. Sold flour for cash ($700.00)
   g. Bot. flour for cash ($1,000.00)
   h. Sold oats for cash ($500.00)

2. For the above transactions, fill in a form ruled as follows:

	Debits *What was received:*	Credits *What was given:*
a	Mdse.	Cash
b		
c	Cash	Mdse.
d		
e		
f		
g		
h		

3. Establish "T" [4] accounts resulting from the transactions given above:

Merchandise		Cash	

4. Using Merchandise account and Cash account, enter the following items from dictation:

Cash, debit, $300.00; debit Cash $500.00; Mdse., credit, $400.00; charge [5] Cash $500.00; credit Cash $250.00; credit Cash $350.00; charge Cash $1,000.00; charge Mdse. $500.00; credit Mdse. $320.00; credit Mdse. $250.00; credit Cash $200.00; charge Cash $500.00; debit Cash $600.00.

Exercise 2B [6]

Properly enter the following transactions:

June	1	Bot. 100 bbls. flour @ $7.50, for cash
	2	Bot. 50 bu. oats @ $1.10, for cash
	3	Sold 10 bbls. flour @ $8.50, for cash
	4	Sold 10 bu. oats @ $1.40, for cash
	5	Sold 25 bbls. flour @ $9.00, for cash
	6	Bot. 50 bu. wheat @ $1.80, for cash
	8	Sold 25 bu. wheat @ $2.50, for cash
	9	Bot. 75 bbls. flour @ $7.00, for cash
	10	Sold 50 bbls. flour @ $9.00, for cash
	11	Sold 25 bbls. flour @ $9.50, for cash
	12	Bot. 100 bu. oats @ $1.25, for cash

[4] See footnote page 6.
[5] "Charge" and "debit" are synonymous terms. (See page 20.)
[6] For additional exercises, see end of Part I.

3. EXPENSE ACCOUNT

Consider the following transactions:

March	1	Bot. 10 bbls. apples @ $4.00, for cash
	2	Bot. books and stationery for office use, cash, $10.00
	3	Bot. postage stamps, $2.00
	4	Paid rent of store for month, in cash, $50.00

In each case the business spent money, so Cash account is to be credited. What are the corresponding debits? Let us ascertain what was received in each case:

On the 1st, apples (mdse.)
On the 2nd, books, etc.
On the 3rd, stamps
On the 4th, use of premises

Observations.—

1. We pay money *for goods to be sold* (mdse.).
2. We pay money *for goods to be consumed* (books and stamps).[7]
3. We pay money *for services* (use of store).

Conclusions.—

1. Goods bought (received) *to be sold* again are called merchandise.
2. Goods bought (received) *to be consumed* are called expenses.
3. Services acquired, as rent (use of premises), labor, telephone use, etc., are called expenses.

Practical Application.—Expense account, instead of Merchandise account, is to be debited for receipts such as those included under 2 and 3 above.

The solution for the four transactions of March is:

Merchandise		Cash		Expense	
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
$40.00			$40.00	$10.00	
			10.00	2.00	
			2.00	50.00	
			50.00		

[7] Stamps are services rather than "goods." Stamps provide the service of the government in making deliveries of messages and merchandise. But the principle is true. Incidentally, economists who agree with Professor Frank A. Fetter's "usufruct" theory need not differentiate between "goods" and "services."

Questions

1. Define Expense account.
2. Differentiate between Expense account and Merchandise account.
3. Apply your test (question 2) to: (*a*) oats, (*b*) coal, (*c*) stationery.
4. Why might one firm call a purchase of oats "merchandise," but another concern call such a purchase "expense"?
5. If Expense account is debited when stationery is bought, what entry should be made if some stationery is returned?

Exercise 3A. Drill

1. Orally indicate the debits and credits resulting from the following transactions:

a. Paid rent of store ($125.00)
b. Paid salaries for the week ($63.00)
c. Bot. mdse. ($2,700.00)
d. Sold mdse. ($1,800.00)
e. Bot. stationery for office use ($16.00)
f. Bot. postal cards and stamps ($4.50)
g. Paid telephone bill ($6.75)
h. Printing bill recd. and paid ($13.20)
i. Retd. some stationery on account of defects, and received cash therefor ($2.50)
j. Bot. books for use of salesmen ($18.00)
k. Retd. the books bot. for salesmen, receiving back the cost of same, ($18.00)

2. Fill in a form similar to that required by Problem 2, Exercise 2*A*, page 10.
3. Establish "T" accounts properly to record the transactions given above.
4. Using properly labeled "T" accounts, enter the following items from dictation:

Debit Cash $1,000.00; charge Mdse. $350.00; credit Mdse. $180.00; debit Expense $85.00; Expense debited, $37.50; charge Expense $30.00; charge Expense $41.25; debit Cash $250.00; credit Cash $72.00; Cash credited $39.00; debit Mdse. $175.00; charge Mdse. $250.00; charge Cash $1,500.00; debit Expense $145.00; credit Expense $18.00; Expense credited $5.75; Expense debit, $150.00; Cash debited $840.00; Cash charged, $550.00; credit Cash $200.00.

5. How much was actually spent for expenses as shown in your solution of Problem 4, above? How much was originally spent? How much was subsequently returned?
6. How much money was received in Problem 4, above? How much was spent? Balance?

Exercise 3B [8]

Enter the following transactions in proper form:

May	1	Paid rent of store, cash, $50.00
	3	Bot. books and stationery for office use, cash, $15.00
	4	Bot. 100 bbls. sugar @ $7.00 and 200 bbls. flour @ $6.00, for cash
	6	Sold 100 bbls. flour @ $7.50, for cash
	8	Paid clerk's salary, $12.00
	12	Paid for window cleaning, $1.00, tip to janitor $2.00 cash
	14	Sold 100 bbls. sugar @ $9.00 for cash
	15	Paid telephone bill, $10.00, in cash
	15	Paid clerk's salary, cash, $12.00
	15	Sold 100 bbls. flour, @ $8.00, for cash

4. PROPRIETOR'S ACCOUNT

Consider the following transaction:

June 1, S. S. Luke began the flour and grain business by investing cash, $2,000.00.

You, as the bookkeeper, would have to decide upon the proper debits and credits. What did the business receive? It received money or cash. Hence, Cash account must be debited for $2,000.00. But what did the business give in return? Really nothing, perhaps, but in order to make the general rules or agreements for debiting and crediting of universal application, let us recognize that the business gave a claim against itself. This claim is to express the fact that the proprietor has a right to expect that the money which he invested in the business will some day be returned to him, if not lost. What title or name shall be applied to this claim? Surely, none better than "S. S. Luke," or "S. S. Luke, Proprietor," or "S. S. Luke, Capital," or "S. S. Luke, Investment," suggests itself.

The decision to credit Mr. Luke's account may be arrived at more easily, but perhaps not in quite as satisfactory a manner when regarded from the point of view of universal principles. We know that Cash account must be debited, because the business received money. We also know that some other account must be credited at the same time. This "other account" must be given some appropriate name

[8] For additional exercises, see end of Part I.

or style. Surely, "S. S. Luke, Investment" is as fitting as any which can be suggested. The entry becomes:

Cash	
$2,000.00	

S. S. Luke, Investment	
	$2,000.00

If, now, the proprietor makes an additional investment of $500.00 in cash, Cash account is debited and the owner's account is credited. The accounts at this point appear as follows:

Cash	
$2,000.00	
500.00	

S. S. Luke, Investment	
	$2,000.00
	500.00

Should the proprietor withdraw $50.00 for his personal use, what entry is required? The "motion pictures" reveal that the business has given $50.00 in cash, and that the business has received back a part of Mr. Luke's claim against it. Accordingly, S. S. Luke, Investment account should be debited and Cash account credited. Assume, further, that the proprietor took goods amounting to $10.00 in value, for his personal use. In such a case Merchandise account should be credited (the business gave goods), and the proprietor's account should be debited (the business received back a part of the proprietor's claim against it).

The four transactions result in:

Cash	
$2,000.00	$50.00
500.00	

S. S. Luke, Investment	
$50.00	$2,000.00
10.00	500.00

Merchandise	
	$10.00

The proprietor's account now shows that his *original* investment was $2,000.00, his *additional* investment $500.00, his *total investment* $2,500.00, his *withdrawals*, $60.00, and his *net investment*, $2,440.00.

Observations.—

1. Cash account is *debited* for money *received* by the business.
2. Merchandise account is *debited* for merchandise *received by* the business.

3. Expense account is *debited* for goods to be consumed and for services *received* by the business.
4. Proprietor's account is *debited* for all claims against him *received* by the business.

Conclusion.—

Appropriate Accounts Are Debited Whenever Money, Goods, Claims, Etc., Are Received By The Business.

Observations.—

1. Cash account is *credited* for money spent or *given* by the business.
2. Merchandise account is *credited* for goods *given* or sold by the business.
3. Proprietor's account is *credited* for claims *given* him against the business.

Conclusion.—

Appropriate Accounts Are Credited Whenever Money, Goods, Claims, Etc., Are Given By The Business.

Questions

1. Why should an account with the proprietor be kept?

2. What is entered on the debit side? On the credit side? What does the balance denote?

3. Give a general rule for debiting accounts. Now give one for crediting accounts.

4. What is the difference between the account with the Proprietor and the one with Cash?

5. Do you consider the following an acceptable definition of *an* account? "An account is a collection of items, systematically arranged, each one of which refers to the same person or thing, and all gathered together under an appropriate title of such person or thing." Tell why you do or do not approve of it.

6. Gave our printer 1 bbl. of potatoes for some printing which he billed us at $6.00. What was received by us? What account should be debited? What was given by us? What account should therefore be credited?

7. Show the general rule for debiting and crediting accounts applied to the proprietor's account.

Exercise 4A. Drill

1. Orally indicate the debits and credits resulting from the following transactions:

a. Thos. A. Browne commenced business by investing cash ($5,000.00)
b. Mr. Browne invested more money ($1,000.00)
c. Paid rent of shop ($175.00)
d. Paid various expenses ($106.00)
e. Mr. Browne drew cash from business for his own use ($200.00)
f. Mr. Browne drew more money for his personal use ($50.00)
g. Bot. mdse. ($2,500.00)
h. Sold mdse. ($2,000.00)
i. Mr. Browne took some mdse. for his own use ($25.00)
j. Mr. Browne made an additional investment ($2,000.00)
k. Mr. Browne sent some mdse. home for his family ($18.00)
l. Paid salaries and wages ($195.00)
m. Bot. mdse. ($500.00)

2. Fill in a form similar to that required for Problem 2, Exercise 2*A*, page 10.
3. Set up "T" accounts for the transactions of Problem 1, above.
4. How much did Mr. Browne invest originally? How much subsequently? His total investment? His first withdrawal? His total withdrawal? His net investment?

Exercise 4B [9]

Properly enter the following transactions:

Dec.	1	S. S. Luke [10] began business by investing cash, $2,500.00
	2	Bot. 100 bbls. potatoes @ $4.00 and 200 bbls. apples @ $5.00, cash
	3	Paid rent $50.00, for printing $18.00 and for signs $12.00, cash
	4	Mr. Luke invested an additional $500.00, in cash
	5	Sold 25 bbls. apples @ $8.00, for cash
	6	Mr. Luke sent home for his private use, mdse., $25.00
	6	Gave Mr. Luke for his private use, cash, $35.00
	6	Paid clerk's salary, $15.00
	8	Sold 100 bbls. apples @ $7.25, for cash
	10	Sold 100 bbls. potatoes @ $5.50, for cash
	11	Sold 75 bbls. apples @ $6.00, for cash

[9] For additional exercises, see end of Part I.
[10] The account with the proprietor may be styled "S. S. Luke, Investment," or "S. S. Luke, Proprietor," or "S. S. Luke, Capital."

5. TRIAL BALANCE OF TOTALS

If you succeeded in properly entering Exercise 4*B*, page 16, you will have "opened" four accounts. In actual business, these accounts appear in a book called the Ledger. You are now requested to ascertain the total of the debit side and of the credit side of each account in the Ledger, and to list these totals on a sheet of blank paper. Your result should be as follows:

Trial Balance (of Totals)

S. S. Luke, Investment	$60.00	$3,000.00
Cash	4,925.00	1,530.00
Merchandise	1,400.00	1,950.00
Expense	95.00	
	$6,480.00	$6,480.00

How is it that the sum of the debits is exactly equal to the sum of the credits? The question is easy of explanation:

The transaction of December 1 resulted in a debit of $2,500.00 and in a credit of $2,500.00.

The transaction of December 2 resulted in a debit of $1,400.00 and in a credit of $1,400.00.

The transaction of December 3 resulted in a debit of $80.00 and in a credit of $80.00.

The transaction of December 4 resulted in a debit of $500.00 and in a credit of $500.00.

And so on.

If each transaction results, as it should, in equal debits and credits, then the sum of all the debits should be equal to the sum of all the credits. Thus, we find in bookkeeping an application of an axiom of our mathematics, namely:

The Sums of Equals are Equal

A Trial Balance is considered proof of the fact that the bookkeeper has entered debits and credits of equal amount for each transaction.

Questions

1. What is a Trial Balance of Totals? What are its functions?
2. What does the debit side of Mr. Luke's account show? The credit side? The balance?
3. What does the debit side of Cash account show? The credit side? The balance?
4. What does the debit side of Merchandise account show? The credit side? The balance, no goods being unsold?
5. What does the Expense account show?
6. Under what circumstances might Expense account be credited?

Exercise 5A. Drill

1. The following accounts result from the transactions which occurred in a certain business:

Milton A. Lane, Capital

$ 50.00	$2,500.00
100.00	1,000.00
8.00	

Cash

$2,500.00	80.00
250.00	1,000.00
700.00	23.13
1,000.00	50.00
2.10	1,875.00
75.00	100.00
380.00	
400.00	
1,100.00	
345.00	

Merchandise

$1,000.00	$250.00
1,875.00	700.00
	75.00
	380.00
	400.00
	8.00
	1,100.00
	345.00

Expense

$80.00	$2.10
23.13	

Prepare a Trial Balance of Totals.

2. Analyze Mr. Lane's account, i.e., tell all you can about it. (See Problem 1, Exercise 5*A*, above.)
3. Analyze the Merchandise account.

4. Analyze the Cash account.
5. Analyze the Expense account.
6. Mr. Lane drew out $50.00. Was this in cash or in merchandise? Answer a similar question in reference to the withdrawal of $8.00. (Exercise 5*A*, page 18.)

Exercise 5B [11]

Prepare a Trial Balance of Totals of all the Ledger accounts resulting from Problem 1, Exercise 4*A*, page 16.

6. TIME TRANSACTIONS—CUSTOMERS [12]

Thus far we have been treating of purchases and sales, each one of which involved either the receipt or the expenditure of cash. We shall soon widen the scope of our knowledge. First consider the following transactions:

March 1 Sold T. Brown 10 bbls. flour @ $8.00, for cash
March 3 Sold F. Green 10 bbls. flour @ $8.00, for cash

Each transaction results in a debit to Cash account and a credit to Merchandise account:

Cash	
$80.00	

Merchandise	
	$80.00

Would the entry be changed in any way if these goods had been sold "on account," that is, if the buyers were not to pay for them at once? Our motion picture screen reveals that in each case the business parted with merchandise but apparently received nothing in return. We are sure that the Merchandise account must be credited; we are also sure that *some* account must be debited. Our solution might be expressed:

?	
$80.00	

Merchandise	
	$80.00

[11] For additional exercises, see end of Part I.
[12] Some instructors may wish to introduce the Profit and Loss Statement and the Statement of Assets and Liabilities before Time Transactions. Suitable discussion will be found on pp. 51 and 53.

What account should take the place of Cash account? This will be the answer to the question mark ("?"). Are we sure that nothing was received? As a matter of fact, T. Brown promises, expressly or by legal implication, to pay us for these goods. The business, therefore, *receives* a legal claim against T. Brown. Until he extinguishes our claim against him, we wish to keep a record of his indebtedness, to keep "an account" of it. This is done by opening an account with T. Brown, which illustrates what is meant when a customer buying on time says, "charge this to my account." For "charge" and "debit," as previously indicated, are synonymous terms in bookkeeping. The correct solutions for both transactions are as follows:

T. Brown

$80.00	

F. Green

$80.00	

Merchandise

	$80.00
	80.00

We now see that for the goods given we have two credits to Merchandise account; and that T. Brown and F. Green, the receivers of these goods, are respectively debited or charged with $80.00 each. The student should now learn to associate "personal" accounts of the above form with the notion of "debtors," that is, with people in our debt or owing money to us.

If on March 8, we sold $100.00 worth of goods to T. Brown, he would now owe us $180.00, and his account would indicate the fact by appearing as follows:

T. Brown

19– March	1			80 00			
	8			100 00			

But suppose that on March 10, T. Brown paid us $125.00 in cash, "on account," that is, by way of *part* payment of his debt, what entry is necessary? Our moving pictures should show that the business received $125.00 in cash, and that the business gave or returned to T. Brown a part of its claim against him. Accordingly, Cash account must be debited and T. Brown's account credited. How much

does T. Brown still owe? Does not the following account correctly disclose the facts?

T. Brown

19– Mar.	1			80 00	19– Mar.	10			125 00
	8			100 00					

We thus see that personal accounts, like all other accounts, are debited for receipts by the business and credited for disbursements by the business, for Brown was debited for the legal claim we received (when we sold him goods) and credited for what we gave or returned (the reduction of our claim by $125.00).

In analyzing Mr. Brown's account, the bookkeeper would say that Mr. Brown bought $80.00 worth of goods on March 1 and an additional $100.00 worth on March 8; that he paid $125.00 on March 10; that he still owes us $55.00. This is a practical analysis, but from the point of view of technical bookkeeping it would be more correct to say that Mr. Brown's account shows that the *business received* a claim against him of $80.00 on March 1 and another claim of $100.00 on March 8; that the business gave back a part of the claim, namely $125.00, on March 10; and that the business still holds a claim of $55.00 against Mr. Brown. The author deems it advisable to employ the technical analysis until the student has become thoroughly grounded in the principles of debit and credit. When debiting and crediting become automatic, the practical man's analysis becomes more desirable.

Questions

1. Distinguish between a cash sale and a sale on account.
2. To whom do we sell on account?
3. Would you be willing to sell on account to everybody? Discuss fully.
4. How can you tell how much a person owes you?
5. What is the appearance of a personal account after settlement (payment in full)?
6. Show that the general rule for debiting and crediting, namely: "Debit appropriately named accounts to record what the business receives. Credit appropriately named accounts to record what the business gives," applies to accounts with customers.

Exercise 6A. Drill

1. Orally indicate the debits and credits resulting from the following transactions:

a. Bot. mdse. for cash ($6,000.00)
b. Sold mdse. for cash ($500.00)
c. Sold mdse. to Smith for cash ($500.00)
d. Sold mdse. to Smith on acct. ($500.00)
e. Smith paid us ($500.00)
f. Sold Brown on acct. ($800.00)
g. Brown paid us on acct. ($300.00)
h. Recd. from Brown cash on acct. ($400.00)
i. Recd. from Brown cash in full to balance acct. ($100.00)
j. Sold Thompson on acct. ($950.00)
k. Thompson paid us cash in full of his acct. ($950.00)
l. Sold Simpson on acct. ($600.00)
m. Sold Brownson on acct. ($750.00)
n. Sold Simpson on acct. ($350.00)
o. Recd. from Brownson on acct. ($250.00)
p. Sold Simpson on acct. ($1,000.00)
q. Simpson paid us cash on acct. ($1,200.00)
r. Sold James & Co. on account ($210.00)
s. Sold Stewart & Son, on acct. ($815.00)
t. Sold Thompson, on acct. ($768.00)
u. Sold Thompson mdse. on acct. ($1,000.00)

2. Employing a form corresponding to the following, enter therein the foregoing transactions:

	Debit	Credit
a		
b		
c		
d		
e		

3. Set up the accounts resulting from the transactions in Problem 1, above.
4. Analyze the account with Smith.
5. Analyze the account with Brown.
6. Analyze Thompson's account.
7. How much does Brownson owe us?
8. Prepare a list showing how much each person owes us, and the total of all such debts.

Exercise 6B [13]

Enter the following transactions:

May	1	Thomas Stewart [14] began the flour and grain business by investing cash $1,500.00
	2	Paid rent of store $50.00
	4	Bot. for cash 100 bbls. flour @ $7.00 and 100 bu. grain @ $1.00
	6	Bot. 100 bbls. flour @ 7.00, for cash. Paid salary $15.00
	8	Sold to F. Veit, on acct., 10 bbls. flour @ $9.00
	9	Sold to Seymour Bros., on acct., 25 bbls. flour @ $9.00
	10	Sold to F. Veit, on acct., 20 bbls. flour @ $9.00
	11	Recd. of F. Veit, on acct., cash $100.00
	12	Recd. of Seymour Bros., on acct., $150.00
	13	Paid salary, $15.00. Mr. Stewart took mdse. for private use, $10.00
	15	Sold to Frank Simpson, on acct., 50 bu. grain @ $1.25. Sold F. Veit, on acct., 20 bbls. flour @ $9.00. Recd. from Seymour Bros., cash, $75.00, in full of acct.

7. TIME TRANSACTIONS—CREDITORS

It is now necessary to consider purchases "on account." Let us discuss the following transactions:

April	1	Bot. of L. Martin, on acct., 100 bbls. beef @ $15.00.
	5	Bot. of Sable & Co., on acct., 25 bbls. apples @ $4.00.

In each case, as goods were received by us, Merchandise account must be debited. As we did not pay at once, that is, did not immediately give cash in return, some other account than Cash must be credited. The fact is that we owe L. Martin and Sable & Co., $1,500.00 and $100.00, respectively. L. Martin and Sable & Co. are our *creditors*, because we owe them money.

As in the case of time sales, we must also keep a record of how much we owe our creditors. The following solution should now be easily understood:

Merchandise

Dr.	Cr.
$1,500.00	
100.00	

L. Martin

Dr.	Cr.
	$1,500.00

Sable & Co.

Dr.	Cr.
	$100.00

[13] For additional exercises, see end of Part I.

[14] Always use the full given name. Do not employ initials unless so specified in the text. Abbreviations of or changes in proper names are not tolerated in actual business practice; they must appear exactly as shown.

The Merchandise account shows that we purchased and therefore received $1,600.00 worth of goods; the account of L. Martin shows that we owe him $1,500.00 (we gave him a legal claim against us for $1,500.00); Sable & Co.'s account shows that we owe them $100.00 (we gave them a legal claim of $100.00 against us).

Two additional transactions with L. Martin should be helpful to the student:

Apr. 12 Gave L. Martin, *on account*, cash, $1,000.00.
30 Paid L. Martin, cash $500.00, *in full of account.*

It should be clear that, after the transaction of April 12, we still owe L. Martin $500.00. This is shown by his account which appears as follows:

L. Martin

$1,000.00	$1,500.00

This account now shows that we gave L. Martin a claim against us of $1,500.00 and that we received back $1,000.00 of this claim. L. Martin therefore still holds a claim of $500.00 against us.

The credit balance of $500.00, that is, the excess of $500.00 on the credit side, shows that we owe him $500.00. The transaction of April 30 settled the account. As we no longer owe L. Martin, his Ledger account must show this fact:

L. Martin

19—					19—				
April	12			1000 00	April	1			1500 00
	30			500 00					

Questions

1. Distinguish between buying for cash and buying on account.
2. Distinguish between a customer and a creditor.
3. How can you tell from any personal account in the Ledger, say John Smith's account, whether you owe Smith or whether Smith owes you?
4. Show that the general rule for debiting and crediting accounts applies to accounts with creditors.

Exercise 7A. Drill

1. Orally decide on the debits and credits for the following transactions:

a. F. Grant invested cash in business ($3,000.00)
b. Paid rent and other expenses ($360.00)
c. Bot. mdse. for cash ($1,800.00)
d. Sold mdse. for cash ($1,500.00)
e. Bot. mdse. from Sanders on acct. ($375.00)
f. Paid Sanders cash in full of acct. ($375.00)
g. Bot. of Rogers, mdse. on acct. ($780.00)
h. Paid Rogers cash on acct. ($500.00)
i. Paid Rogers balance of acct. ($280.00)
j. Bot. of Sanders mdse. on acct. ($450.00)
k. Bot. of Crane, mdse. on acct. ($700.00)
l. Bot. of Bancroft, mdse. on acct. ($565.00)
m. Bot. of Loomis, mdse. on acct. ($308.00)
n. Bot. of Crane, mdse. on acct. ($475.00)
o. Paid Bancroft cash on acct. ($250.00)
p. Bot. of Crane, mdse. on acct. ($1,200.00)
q. Paid Sanders cash on acct. ($300.00)

2. Employing the analysis form used for Problem 2 of Exercise 6*A*, page 22, enter the foregoing transactions therein.

3. Set up the accounts resulting from the foregoing transactions.

4. Analyze Sanders' account.

5. Analyze the account with Crane.

6. Analyze Bancroft's account.

7. Prepare a list of our debts to individual creditors. How much is our total indebtedness?

Exercise 7B [15]

Enter the following transactions:

May 1 Robert Gray began business by investing cash $2,000.00
2 Paid rent of store, $75.00
3 Bot. of L. Martin, on acct., 100 bbls. flour @ $7.00
4 Bot. of Browne Bros. & Co., on acct., 200 bbls. flour @ $7.00
5 Bot. of Franklin & Son, on acct., 1,000 bu. grain @ $.95
6 Sold to F. Veit for cash, 100 bbls. flour @ $10.00. Paid salaries $20.00, cash
8 Bot. of L. Martin, on acct., 100 bbls. flour @ $7.00
9 Paid on acct. $500.00 to L. Martin
10 Paid Browne Bros. & Co., on acct., $600.00
11 Bot. of L. Martin, on acct., 1,000 bu. of corn @ $.90

[15] For additional exercises, see end of Part I.

12 Bot. of Browne Bros. & Co., on acct., 1,000 bu. of corn @ $.90
13 Sold to Tracy Bros., for cash, 2,500 bu. corn @ $1.00. Paid salaries $20.00, cash
14 Paid Browne Bros. & Co., on acct., $1,000.00
15 Sold to M. Castle, on acct., 50 bbls. flour @ $10.00
15 Sold to Carlyle Bros., on acct., 25 bbls. flour @ $10.00, and 500 bu. corn @ $.90

8. TIME TRANSACTIONS—CUSTOMERS AND CREDITORS

Before proceeding further, it will be well to drill on the type of accounts introduced in the two preceding sections.

Is the following account with a customer or with a creditor?

John Cooper

May 1	$200.00	May 1	$200.00

No one can tell, for a reason which will be made clear in the next illustration.

Is the following an account with a customer or with a creditor?

John Cooper

May 1	$200.00	May 15	$200.00

John Cooper is a customer. The account shows that he received (purchased) on May 1 and gave (paid the account) on May 15. As he received *before* he gave, the conclusion is that he must be a customer, on the general assumption that he would not be likely to pay before receiving the goods for which he paid.

Is Peter Jones our customer or our creditor?

Peter Jones

$1,000.00	$500.00
	200.00
	300.00

Once again, we cannot tell. It may be that Jones bought $1,000.00 worth of goods on account, and paid for them in three installments.

On the other hand, we may have bought three bills of goods from him, and paid the three invoices at once. The solution is not clear until the dates of the transactions are ascertained:

Peter Jones

Aug. 7	$1,000.00	July 3	$500.00
		18	200.00
		27	300.00

It is now easily seen that we bought $500 worth of goods on July 3, $200 on July 18, and $300 on July 27. We paid the three invoices on the 7th of the following month. The account with Peter Jones is therefore with a creditor.

Questions

1. Why are personal accounts kept?
2. Distinguish between our debtors and our creditors.
3. How can you tell whether a given personal account shows that the balance is due to or due by the business?
4. What is the rule for debiting and crediting personal accounts? Show that it is the same as that for the other accounts with which you are familiar.
5. Show that the general rule for debit and credit, namely, "Debit appropriately named accounts to record receipts by the business, and credit appropriately named accounts to record whatever the business gives," applies to personal accounts.

Exercise 8A. Drill

1. Orally decide upon the debits and credits arising out of the following transactions:

a. H. C. Bell commenced business by investing cash ($5,000.00)
b. Paid various expense items in cash ($280.00)
c. Bot. mdse. for cash ($1,200.00)
d. Sold mdse. for cash ($110.00)
e. Bot. mdse. of T. Krummel on acct. ($1,800.00)
f. Sold mdse. to B. Lange on acct. ($1,500.00)
g. Paid T. Krummel on acct. ($1,000.00)
h. B. Lange paid us cash on acct. ($900.00)
i. Sold B. Lange mdse. on acct. ($1,350.00)
j. Bot. mdse. of R. Janery on acct. ($2,650.00)
k. Bot. mdse. of T. Krummel on acct. ($985.00)
l. Sold B. Lange mdse. on acct. ($860.00)
m. Bot. mdse. of T. Krummel on acct. ($1,070.00)
n. Paid R. Janery, on acct. ($1,000.00)

o. Sold H. Koopman mdse. on acct. ($550.00)
p. Sold P. Bailey, mdse. on acct. ($975.00)
q. Paid T. Krummel on acct. ($500.00)
r. Sold H. Koopman mdse. on acct. ($1,000.00)
s. H. Koopman paid us on acct. ($500.00)
t. H. Koopman paid on acct. ($600.00)
u. Bot. of Marlow & Lynch, mdse. on acct. ($300.00)
v. H. Koopman paid invoice in full ($450.00)
w. Bot. of Marlow & Lynch, mdse. on acct. ($470.00)

2. Employing a form such as shown in problem 2, Exercise 6*A*, page 22, place therein the foregoing transactions. Also set up the corresponding "T" accounts.

3. Analyze T. Krummel's account.
4. Analyze H. Koopman's account.
5. Prepare a schedule of customers' balances. How much is due us?
6. Prepare a schedule of creditors' balances. How much do we owe?
7. Prepare a trial balance of totals.
8. Analyze the following account with a customer:

H. A. Arnold

19—				19—			
Apr.	6	Mdse.	$210.00	May	2	Cash	$ 670.00
	27	Mdse.	460.00	June	3	Cash	910.00
May	24	Mdse.	910.00	July	2	Cash	1,550.00
June	7	Mdse.	350.00				
	24	Mdse.	800.00				
	28	Mdse.	400.00				

a. How much did Mr. Arnold buy during April? May? June? Altogether?
b. Does he pay promptly? Tell exactly how he pays.
c. How much does he still owe?
d. Do you consider him a good customer? Why?

9. Similarly analyze this account:

Banjemann & Bunnelle

19—				19—			
Mar.	16	Mdse.	$675.00	July	1	Cash	$200.00
July	21	Mdse.	850.00		8	Cash	300.00
	22	Mdse.	95.00	Sept.	15	Cash	250.00
Oct.	15	Mdse.	100.00				

In addition to answering questions similar to those in reference to H. A. Arnold's statement, what would you do if Banjemann & Bunnelle sent you an order for $500.00 on December 19, 19—, when their account appeared as here reproduced? Answer fully, with reasons.

Exercise 8B [16]

Enter the following transactions and prepare a Trial Balance of Totals:

May	1	H. Siegel began the flour and grain business by investing cash, $5,000.00
	2	Bot. of T. Brown, 100 bbls. flour @ $7.00 and 200 bu. grain @ $1.00, for cash
	3	Paid rent $50.00 and sundry expense items $24.00 cash
	4	Bot. of Chicago Flour Co., on acct., 100 bbls. flour @ $6.90
	5	Sold to Thompson & Bro., cash, 100 bu. grain @ $1.25
	6	Sold to Arnold & Co., on acct., 50 bbls. flour @ $9.00
	6	Sold to Bennett & Son, on acct., 50 bu. grain @ $1.20 and 20 bbl. flour @ $9.00
	8	Bot. of Chicago Flour Co., on acct., 200 bbls. flour @ $7.00
	9	Paid Chicago Flour Co., on acct., $1,000.00 cash
	9	Sold Arnold & Co., on acct., 50 bbls. flour @ $9.00
	11	Recd. of Bennett & Son, on acct., $150.00
	13	Recd. of Arnold & Co., on acct., cash $500.00
	15	Paid Chicago Flour Co., on acct., cash $500.00
	15	Sold to Brooklyn Trading Co., on acct., 150 bbls. flour @ $9.00
	15	Sold for cash, 30 bbls. flour @ $9.00 and 50 bu. grain @ $1.30

9. THE JOURNAL

The student who solved Exercise *8B* began by mentally deciding that as a result of the May 1st transaction, Cash account was to be debited for $5,000.00 and the account of H. Siegel, Proprietor, was to be credited for a like amount. His solution assumed the form:

Cash	
$5,000.00	

H. Siegel, Proprietor	
	$5,000.00

Instead of making the entries at once, he might have decided them mentally and have made a memorandum of all the solution on

[16] For additional exercises, see end of Part I.

an analysis form, such as is illustrated in problem 2, Exercise 6*A*, page 22, and then have placed them in the Ledger accounts. Or, he might have set his analysis down thus:

May 1, 19—

	Cash (Debit)	5000 00	
	H. Siegel, Prop. (Credit)		5000 00
	May 2nd		
	Mdse. (Dr.)	900 00	
	Cash (Cr.)		900 00
	May 3rd		
	Expense (D)	74 00	
	Cash (C)		74 00
	May 4th		
	Mdse. ( )	690 00	
	Chicago Flour Co. ( )		690 00
	May 5th		
	Cash	125 00	
	Mdse.		125 00

The solutions are read:

May 1 Cash *to* H. Siegel, Proprietor, $5,000.00.
May 2 Mdse. *to* Cash, $900.00, etc.

The student should note that the first item is *not* read, "cash, debit, $5,000.00; H. Siegel, Prop., credit, $5,000.00." The amount is read just once, and debit and credit are dropped, the word "to" taking their place and being employed to separate the debits from the credits. Observe that the writing of the terms "debit" and "credit" may easily be dispensed with. Notice the gradual elimination of the terms in question.

In practice, the bookkeeper uses specially ruled sheets, such as here employed, to record his analysis into debits and credits, so that when the transactions are properly entered he has the form shown on the following page.

May 1, 19—				
Cash	5000	00		
H. Siegel, Proprietor			5000	00
2				
Mdse.	900	00		
Cash			900	00
Expense	74	00		
Cash			74	00
4				
Mdse.	690	00		
Chicago Flour Co.			690	00
5				
Cash	125	00		
Mdse.			125	00

Observations.—

1. The dates are written in the middle of the page, occupying a line between entries, and the month and year usually appear but once on each page.
2. Each account which is to be debited is written close to the vertical lines; the amount is entered in the first money column on the same line.
3. Accounts which are to be credited are written beneath the debit items, about one-half inch to the right; the amount is entered in the second column on the same line.
4. Were it not for the fact that bookkeepers call the foregoing book the *Journal*, it might suitably enough be styled the Indicator, because the entries therein simply indicate debits and credits resulting from each transaction.

Questions

1. Does the Journal help you in debiting and crediting accounts? Why?
2. Compare the Journal with the analysis form used in problem 2, Exercise 2*A*, page 10. What have these two forms in common?
3. State in your own words how a transaction should be entered in the Journal.

Exercise 9A. Drill

1. Orally journalize all the transactions of Problem 1, Exercise 8*A*, page 27. Read your results thus:

a. Cash to H. C. Bell, Capital, $5,000.00.
b. Expense to Cash, $280.00, etc., etc.

2. Employing properly ruled Journal sheets, and, supplying your own dates, journalize the transactions of Problem 1, Exercise 8*A*, page 27.

3. Interpret the following Journal entries, i.e., state what transactions *probably* gave rise to each of them, respectively, and give full reasons in each case:

a. Cash	$2,500.00	
Thos. Healy, Prop.		$2,500.00
b. Expense	75.00	
Cash		75.00
c. Mdse.	350.00	
Cash		350.00
d. Cash	210.00	
Mdse.		210.00
e. Mdse.	700.00	
Frank Root		700.00
f. J. Goodman	500.00	
Mdse.		500.00
g. Thos. Healy, Prop.	25.00	
Cash		25.00
h. Thos. Healy, Prop.	12.00	
Mdse.		12.00
i. Cash	350.00	
J. Goodman		350.00
j. Cash	150.00	
J. Goodman		150.00
k. Frank Root	700.00	
Cash		700.00

Exercise 9B

Journalize the transactions of Exercise 6*B*, page 23.

10. POSTING

If the Journal simply indicates debits and credits, journalizing is an incomplete process. The accounts to be debited and credited must be transferred to the proper Ledger accounts, as indicated. This act of transferring to the Ledger is called *posting.* For example, the first entry in the Journal (page 29) should be posted so as to result in:

Cash

May 1 $5,000.00	

H. Seigel, Proprietor

	May 1 $5,000.00

The first three Journal entries produce:

Cash

May 1 $5,000.00	May 2 $900.00
	3 74.00

H. Seigel, Proprietor

	May 1 $5,000.00

Merchandise

May 2 $900.00	

Expense

May 3 $74.00	

As each item is posted, the page of the Ledger to which it has been transferred is placed in the column immediately to the left of the Journal entry. Thus, if the Cash account is on page two and the Proprietor's account on page one, the Journal entry of May 1, after posting, appears as follows:

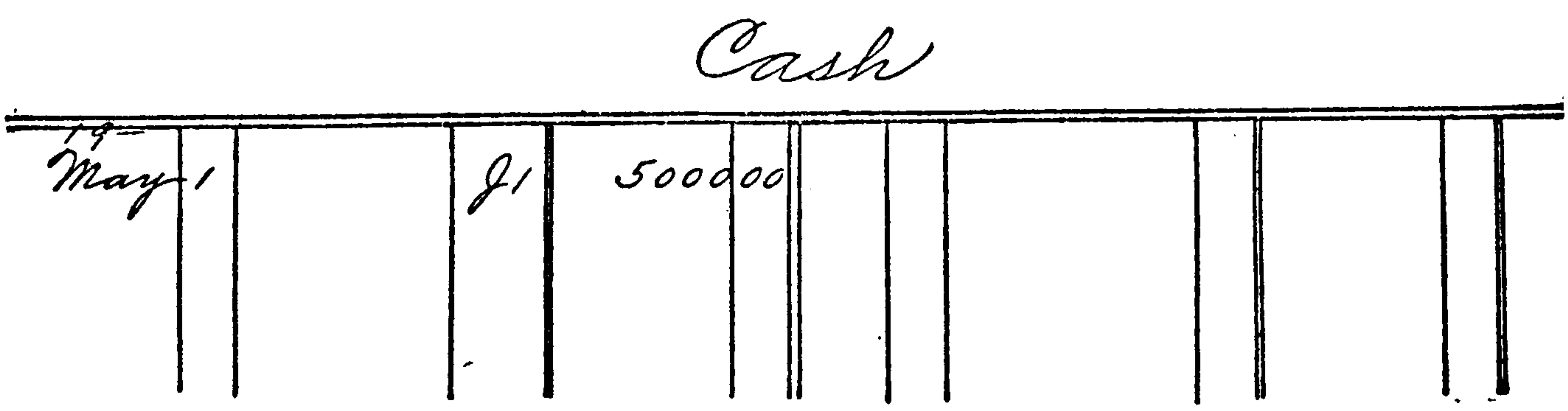
May 1, 19—

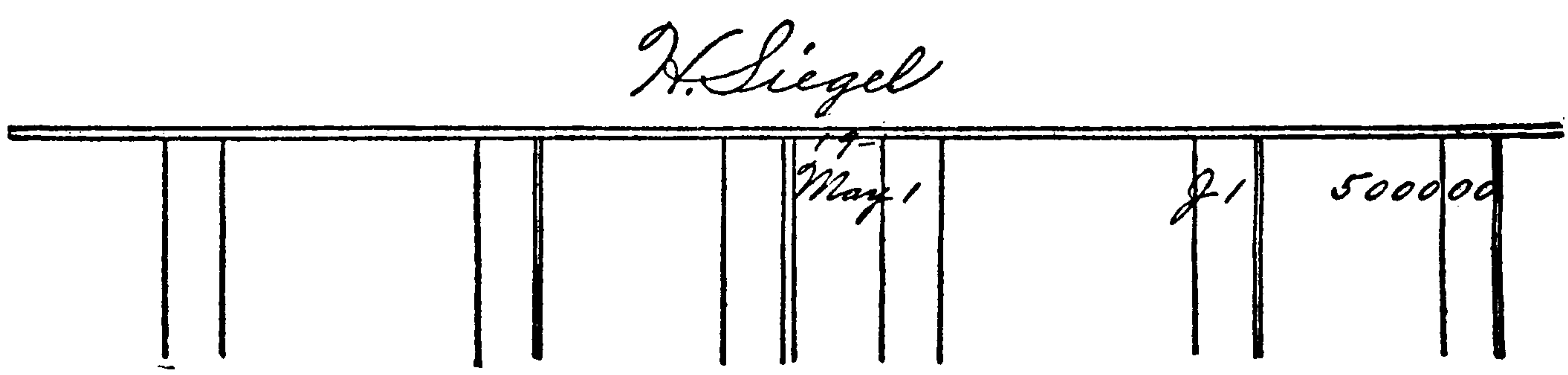
	2	Cash	5000	00		
	1	H. Siegel, Proprietor			5000	00

The figures serve two purposes; they act as "checks" on the posting process, that is, they show that the transferring was accom-

plished, and they also point out where any particular items may be found in the Ledger.

In the Ledger, too, a similar check is employed. Its object is to tell whence a particular item was taken. The page of the Journal, together with the initial letter of the book, "J," is placed immediately to the left of the amount,[17] in the column which the student will find on each Ledger page. Assuming that page one of the Journal was used, the two accounts resulting from the entry of May 1, would appear as follows:





Questions

1. Why is journalizing an incomplete process? (Recall the purpose of the Journal.)
2. How does posting complete the process?
3. What is meant by checking?
4. Is it essential to indicate in the Journal to which page or folio of the Ledger, items were posted? Why?
5. What useful purpose is served by indicating in the Ledger from which Journal page an item came?

Exercise 10A. Drill

1. Post the items from the Journal resulting from Problem 2, Exercise 9*A*, page 32. (Use "T" accounts instead of formal Ledger sheets.)
2. Take a Trial Balance of Totals to prove the correctness of your postings.

[17] The "J" may be placed in the narrow column where the page "1" appears, as shown, or it may be written in the wide space to the left.

Exercise 10B[18]

Post the entries resulting from journalizing 9*B* and take a Trial Balance of Totals.

11. THE JOURNAL (Concluded)

In Section 9, the student was introduced to the Journal employed as a book intermediate between the list of transactions and the Ledger. In this capacity, its sole service was that of an indicator, as was previously pointed out. The bookkeeper has extended its function so that it not only is an indicator, but it is also the record of the transaction. At one time, it was customary to enter transactions first in a so-called "Day Book" and then to separate them into their proper Ledger accounts. Nowadays, the Journal and the Day Book are combined into one, the *Day Book-Journal.* The bookkeeper invariably refers to this combination as The Journal (from the French, through the Latin *Diurnalis,* giving us the English *Diurnal,* daily) and it is so employed throughout the rest of this text. The Journal, in its complete form, for the first five transactions of May (Exercise 8*B*) *and after posting,* follows:

May 1, 19-

2	Cash	Investment in	5000.00	
1	H. Siegel, Prop.	flour and grain business		5000.00
		2		
4	Mdse.	Bot. of T. Brown	900.00	
2	Cash	100 bbls. Flour @ 7.00 200 bu. Grain @ 1.00		900.00
		3		
3	Expense	Paid rent 50.00	74.00	
2	Cash	Sundry items 24.00		74.00
		4		
4	Mdse.	Bot. on account	690.00	
5	Chicago Flour Co.	100 bbls. Flour @ 6.90		690.00
		5		
2	Cash	Sold Thompson & Bro.	125.00	
4	Mdse.	100 bu. Grain @ 1.25		125.00

[18] For additional exercises, see end of Part I.

Observe the explanations which accompany each entry in the Journal. Every first record (original entry) of a transaction should be self-explanatory. The bookkeeper should test each original entry explanation by some such standard as, for example, whether or not it is *complete*, *clear* and *concise*.

The student knows that the Journal entry for the following transaction:

Sold to Thos. Jones, for cash, 100 bbls. flour @ $10.00,

is as follows:

Date

		Cash	Sold Thomas Jones	1,000	00		
		Mdse.	100 bbls. flour $10.00			1,000	00

Many bookkeepers hold, however, that the foregoing entry is weak in a very important respect. It fails to open an account with Thomas Jones, so that there is no convenient record of the transactions with him. When it is desired to keep personal accounts with all customers, including those who buy for cash, two entries are required:

Date

		Thomas Jones	Sold for cash	1,000	00		
		Mdse.	100 bbls. flour $10.00			1,000	00
		Da	te				
		Cash	Cash in full for	1,000	00		
		Thomas Jones	invoice of today			1,000	00

It is readily seen that the Ledger account of Thomas Jones is closed, but it does nevertheless record the transaction. Very good reasons can be advanced in favor of the two entries just shown, despite the fact that they involve additional work. The student should decide for himself which procedure he favors, unless his instructor gives different directions.

Questions

1. What is the function of the Journal?
2. Why may the Journal be called a "book of original entry"?
3. Justify the term "book of final entry" as sometimes applied to the Ledger.

4. Criticize the following explanations for the transactions of Exercise 8*B*:

(*a*) May 4
Bot. of Chicago Flour Co., on acct.,
100 bbls. flour $6.90
Is it clear? Complete? *Concise?* Is "Chicago Flour Co." necessary? Explain.

(*b*) May 5
Sold to Thompson & Bro. for cash
100 bu. grain $1.25
Is "for cash" necessary? Explain.

(*c*) May 2
Bot. 100 bbls. flour $7.00
Bot. 200 bu. grain $1.00
Why is it not complete? Explain fully.

Exercise 11A. Drill

1. Orally journalize the following transactions:

19—

Sept.	16	H. Spencer began business by investing Cash, $6,000.00. Paid rent of store, $100.00; printing and stationery bills, $32.00, and for signs, $44.00
	18	Bot. of J. Wallace, 500 bbls. flour @ $8.00, for cash
	19	Bot. of J. Tyndall, on acct., 300 bbls. flour @ $8.00 and 2,000 bu. wheat @ $1.00
		Bot. of M. Thackeray & Son, on acct., 500 bbls. flour @ $8.00 and 3,000 bu. oats @ 60c.
		Bot. of J. Wallace on acct., 2,500 bu. oats @ 60c.
	21	Sold L. Irwin, for cash, 30 bbls. flour @ $10.00
	22	Sold T. Cobb on acct. 100 bbls. flour @ $10.00
	25	Bot. of J. Tyndall on acct., 400 bbls. flour @ $8.00
	26	Sold L. Irwin, on acct., 100 bbls. flour @ $10.00, and 500 bu. wheat @ $1.20
		Sold T. Cobb, on acct., 1,000 bu. oats @ 75c.
	28	Paid J. Wallace on acct., $1,000.00
		Paid J. Wallace in full of acct., $500.00
	30	Recd. cash from T. Cobb., in full, $1,750.00
		Recd. from L. Irwin, cash on acct., $500.00

2. Journalize the above transactions, using Journal sheets for the purpose.

3. Post the Journal entries resulting from Problem 2, above.

4. How many dollars worth of goods was sold to L. Irwin? How can you tell? (Recall page 36.)

Exercise 11B [19]

Journalize Exercise 7*B*, page 25. Post the resulting Journal entries.

[19] For additional exercises, see end of Part I.

12. NOTE TRANSACTIONS

Try to journalize the following transactions:

June	4	Sold R. Brown, 100 bbls. flour @ \$9.00, for cash
	5	Sold R. Brown, 100 bbls. flour @ \$9.00, on acct.
	6	Sold R. Brown, 100 bbls. flour @ \$9.00, on his 10-day note [20]
	16	R. Brown paid his note of the 6th inst., cash, \$900.00

The first two give no trouble:

June 4, 19—		
Cash	\$900.00	
Mdse.		\$900.00
5		
R. Brown	900.00	
Mdse.		900.00

But how about the third? The moving picture device, called to our aid, shows that we received a note instead of cash for the goods we gave. Accordingly, we obtain:

June 6, 19—		
"Note"	\$900.00	
Mdse.		\$900.00

As the bookkeeper calls such notes " Notes Receivable," the proper entry is:

June 6, 19—		
Notes Receivable	\$900.00	
Mdse.		\$900.00

Upon posting, we have:

Notes Receivable

\$900.00	

Merchandise

	\$900.00

We must now treat the transaction of ten days later. It reads:

"June 16, R. Brown paid his note of the 6th inst., cash, \$900.00."

[20] For illustrations of promissory notes, see pages 63 and 395.

As we received money, Cash account must be debited. What did we give in return? We had to return Mr. Brown's written promise to him, hence we must credit Notes Receivable account:

June 16, 19——		
Cash	$900.00	
Notes Receivable		$900.00

After posting we have:

Notes Receivable		Merchandise		Cash	
$900.00	$900.00		$900.00	$900.00	

The Notes Receivable account is closed, showing that we are no longer the holders or possessors of notes; Merchandise account shows that we have parted with goods; Cash account records the receipt of money. Note that the final result is equivalent to a cash transaction—value received for value given—so that the function of the Notes Receivable account is somewhat similar to that of a customer's account which records a sale on account. Both are temporary accounts which disappear as soon as the debt is paid.

The following transaction shows that we sometimes buy goods, giving in payment *our* promissory note:

June 15, Bot. of S. Johnson, 50 bbls. flour @ $8.00, on my 10-day note.

Such notes are called "Notes Payable," therefore the entry is:

Mdse.	$400.00	
Notes Payable		$400.00

When we pay the note, the entry is:

Notes Payable	$400.00	
Cash		$400.00

The student is cautioned against a common error. Notes Receivable is often confused with Notes Payable. A very good test is to ask yourself in every case: "Are we to pay this note at maturity?" If we are, it is *always* referred to as Notes Payable; all others are Notes Receivable. Obviously, the note which we call Notes Payable is Notes Receivable to the payee, that is, to the person to whom we promise to pay and *vice versa.*

Questions

1. What is a promissory note? Write the note employed in the transaction of June 15, page 39.
2. Why are notes employed in business? How do we differentiate between Notes Receivable and Notes Payable?
3. How much does R. Mason owe us? (See Exercise 12*B*.) How can you tell? Explain.
4. What does the balance of our Notes Receivable account show? (Exercise 12*B*.) Explain.
5. Discuss question 4 with respect to Notes Payable. (Exercise 12*B*.)
6. Would you prefer to sell "on account" or "on a note"? Why?
7. If a balance exists in the Notes Receivable account, must it be a debit or a credit balance? Why?
8. Discuss Question 7 with respect to Notes Payable.

Exercise 12A. Drill

1. Orally journalize the following transactions:

a. Sold Smith mdse. for cash ($1,000.00)
b. Sold Smith mdse. on acct. ($1,000.00)
c. Smith paid his acct. ($1,000.00)
d. Sold Smith mdse. on his 10-day note ($100.00)
e. Smith paid his note due today ($100.00)
f. Sold Robbins mdse. on his 30-day note ($600.00)
g. Robbins paid his note today ($600.00)
h. Sold Stewart mdse. on his 15-day note ($750.00)
i. Stewart paid his note ($750.00)
j. Bot. of Brown mdse. for cash ($2,000.00)
k. Bot. of Brown mdse. on acct. ($2,000.00)
l. Paid Brown in full ($2,000.00)
m. Bot. of Brown mdse. on my 10-day note ($200.00)
n. Paid my note favor of Brown ($200.00)
o. Bot. of Cleveland, mdse. on my 10-day note ($1,800.00)
p. Paid my note favor Cleveland due today ($1,800.00)
q. Bot. of Stowe & Co. on my 30-day note, mdse. ($2,500.00)
r. Paid Stowe & Co., note due today ($2,500.00)

2. Analyze the following accounts:

(*a*) Notes Receivable

$ 600.00	$1,000.00
1,000.00	

(*b*) Notes Payable

$3,000.00	$3,000.00
2,000.00	1,500.00
	2,000.00

3. Analyze the following accounts:

(*a*) **Notes Receivable**

19—		19—	
Oct. 1	$5,000.00	Nov. 1	$5,000.00
18	2,750.00	Dec. 18	2,750.00
Dec. 5	2,000.00		

(*b*) **Notes Payable**

19—		19—	
Aug. 2	$4,500.00	Apr. 10	$3,300.00
10	3,300.00	June 2	4,500.00
Dec. 24	2,500.00	Sept. 25	2,500.00
		Nov. 21	3,600.00

Exercise 12B [21]

Journalize and post the following:

June 1 F. D. Purse began business by investing cash, $1,000.00
2 Paid rent of store $60.00, printing $15.00, stationery $10.00
4 Bot. of B. Brodie, on acct., 300 bbls. apples @ $3.00
5 Sold to R. Mason, on his 10-day note, 50 bbls. apples @ $4.00
6 Sold R. S. James, on his 15-day note, 100 bbls. apples @ $4.00
8 Sold W. Johnson, on his 10-day note, 100 bbls. apples @ $4.00
11 Bot. of L. Landers, on my 15-day note, 50 bbls. apples @ $3.00, and 1000 bu. peaches @ $.60
13 Bot. of Bermuda Fruit Co., 100 crates onions @ $1.25, and gave them my 1-mo. note, in full
14 Sold W. Johnson, on his 1-mo. note, 300 bbls. apples @ $4.00, and 500 bu. peaches @ $.80
15 Recd. of R. Mason, cash in payment of his note due today, $200.00
15 Sold C. Stewart, for cash, 100 crates onions @ $1.75
17 Paid clerk hire $30.00
17 Mr. Purse drew for private use, cash, $50.00
18 W. Johnson paid his note of 6/8, in cash, $400.00
20 Sold R. Mason, on his 15-day note, 500 bu. peaches @ $.70 and 250 bbls. apples @ $4.00
21 R. S. James paid his note due today, cash, $400.00
26 Paid my note in favor of L. Landers, due today, cash, $750.00

[21] For additional exercises, see end of Part I.

To aid the student, we herewith show a few of the entries resulting from the transactions in Exercise 12B.

		June 5				
	Notes Receivable	Sold R. Mason, on his	200	00		
	Mdse.	10-day note,			200	00
		50 bbls. apples $4.00				
		11				
	Mdse.	Bot. of L. Landers, on	750	00		
	Notes Payable	my 15-day note,			750	00
		50 bbls. apples $3.00				
		1000 bu. peaches $.60				
		15				
	Cash	R. Mason paid his note	200	00		
	Notes Receivable	of the 5th inst.			200	00
		26				
	Notes Payable	Paid my note of 6/11,	750	00		
	Cash	favor of L. Landers			750	00

13. NOTE TRANSACTIONS—(Concluded)

After selling goods to a customer on account, he may settle his book debt by giving us a note. Such transactions differ from those discussed in the previous section in that there the exchange consisted of our parting with goods for a note, whereas we are now to consider the case of selling goods "on time," then subsequently receiving the note, which is finally paid at maturity. The following transactions are illustrative:

July	1	Sold L. Garrison, on acct., 100 bbls. apples @ $4.00
	10	Recd. from L. Garrison his 15-day note in full of acct. $400.00
	25	L. Garrison paid his note of the 10th inst., in cash, $400.00

The first transaction is one with which we are very familiar. It results in:

	July 1, 19—			
L. Garrison	Sold on acct.		$400.00	
Mdse.	100 bbls. apples	$4.00		$400.00

The second entry will be easily understood:

	10		
Notes Receivable	Recd. his 10-day note in full	$400.00	
L. Garrison	of acct.		$400.00

The final one should also prove easy:

	25		
Cash	L. Garrison paid his note of	$400.00	
Notes Receivable	7/10		$400.00

If we post these entries it will be seen that the personal account of L. Garrison and the Notes Receivable account served as temporary accounts, because when the transaction is finally settled or completed —value received for value given—the Cash and Merchandise accounts alone remain open:

L. Garrison

July 1 $400.00	July 10 $400.00

Merchandise

	July 1 $400.00

Notes Receivable

July 10 $400.00	July 25 $400.00

Cash

July 25 $400.00	

A similar purchase will now be illustrated:

July 2 Bot. of T. Thompson, on acct., 1,000 bu. oats @ $.90
11 Gave T. Thompson my 1-mo. note in full on acct., $900.00
Aug. 11 Paid T. Thompson, cash for note of 11th ult., $900.00

The Journal entries, with the customary explanations are:

		July 2				
	Mdse.	Bot. on acct.	900	00		
	T. Thompson	1,000 bu. oats $.90			900	00
		11				
	T. Thompson	Gave my 1-mo. note in	900	00		
	Notes Payable	full of acct.			900	00
		Aug. 11				
	Notes Payable	Paid my note of July	900	00		
	Cash	11, favor of T.			900	00
		Thompson				

Questions

1. What is the function of Brown's account in the transaction of May 3? (See Exercise 13*B*.)

2. How is Brown's account affected by the first transaction of May 8?

3. How are both accounts affected by the first transaction of May 18?

4. Why does a person settle his account by a note? Is this a real settlement of the debt? Explain.

5. Show that the general rule for journalizing (i.e., for debiting and crediting accounts) applies to Notes Receivable account and to Notes Payable account.

Exercise 13A. Drill

1. Orally journalize the following transactions:

a. Sold Robinson mdse. on acct. ($3,000.00)
b. Robinson paid cash in full ($3,000.00)
c. Sold Robinson mdse. on acct. ($3,500.00)
d. Recd. from Robinson his 30-day note in full ($3,500.00)
e. Robinson paid his note due today ($3,500.00)
f. Sold mdse. to Simpson on acct. ($5,700.00)
g. Simpson gave us his 60-day note on acct. ($5,000.00)
h. Simpson paid us cash to balance his acct. ($700.00)
i. Simpson paid his note due today ($5,000.00)
j. Sold Brommly mdse. on acct. ($3,500.00)
k. Recd. from Brommly his 15-day note on acct. ($2,000.00)
l. Recd. from Brommly his 30-day note to balance his acct. ($1,500.00)
m. Recd. from Brommly cash to pay note due today ($2,000.00)
n. Brommly paid his note due today ($1,500.00)
o. Bot. of Jameson mdse. on acct. ($2,500.00)
p. Gave Jameson my 30-day note in full of acct. ($2,500.00)
q. Bot. of Jameson mdse. on acct. ($3,600.00)
r. Gave Jameson my 30-day note ($2,600.00) and balance in cash ($1,000.00), to settle my account.[22]
s. Bot. of Small & Small mdse. on acct. ($2,100.00)
t. Gave Small & Small on acct. my 30-day note ($1,500.00)
u. Gave Small & Small in full of acct. my 15-day note ($600.00)
v. Paid my 30-day note favor Small & Small due today ($1,500.00)
w. Paid my 15-day note favor Small & Small ($600.00)

2. What series of transactions resulted in the following Ledger accounts?

(*a*) **Merchandise**

$950.00	$1,500.00

Notes Receivable

$1,500.00	$1,500.00

[22] Remember that debits and credits *equal in amount* must result from every transaction.

Notes Payable

	950.00

Cash

1,500.00	

(*b*) **Merchandise**

	19—
	Oct. 3 1,500.00

James Rawley

19—	19—
Oct. 3 1,500.00	Oct. 7 1,500.00

Notes Receivable

19—	19—
Oct. 7 1,500.00	Nov. 7 1,500.00

Cash

19—	
Nov. 7 1,500.00	

(*c*) **Merchandise**

19—	
June 15 $2,600.00	

Trever & Sons

19—	
June 30 $2,600.00	June 15 $2,600.00

Notes Payable

19—	19—
Aug. 30 $2,600.00	June 30 $2,600.00

Cash

	19—
	Aug. 30 $2,600.00

3. Complete the explanations for the following Journal entries:

September 3, 19—

Mdse.		2400	00		
Rawlins & Co.	300 bbls. Flour @ 8.00			2400	00
8					
Rawlins & Co.		2400	00		
Notes Payable				2400	00
12					
Simpson & Brown					
Mdse.	100 bbls. Flour @ 10.00	1750	00		
	1000 bu. Corn @ .75			1750	00
15					
Notes Receivable		1750	00		
Simpson & Brown				1750	00
30					
Cash		1750	00		
Notes Receivable				1750	00
Oct. 8					
Notes Payable		2400	00		
Cash				2400	00

Exercise 13B [23]

Journalize and post the following transactions:

May 1[24] H. Guither began business by investing cash, $2,000.00 and 1,000 bu. oats worth $1.00 per bu.

[23] For additional exercises, see end of Part I.

[24] Moving pictures will aid us here, as on so many other occasions. What did the business receive? Hence, Cash a/c and Mdse. a/c are to be debited. One solution is:

Cash	$2,000.00	
H. Guither, Prop.		$2,000.00

and

Mdse.	1,000.00	
H. Guither, Prop.		1,000.00

A more popular entry follows:

May 1, 19—

Cash	Investment of cash	2,000	00		
Mdse.	and 1000 bu. oats @$1.00	1,000	00		
H. Guither, Prop.				3,000	00

Entries of this form are known as *compound* entries. The student should see clearly that they observe the fundamental principle of double entry bookkeeping, in that debits and credits are equal *in amount.*

2 Paid rent of store $100.00
3 Bot. on acct., of H. Brown & Co., 800 bu. oats @ $1.00
4 Sold to T. Thompson & Son, on acct., 1,000 bu. oats @ $1.20
6 Bot. postage stamps $2.00, stationery $5.00
8 Gave H. Brown & Co., my 10-day note in full of acct., $800.00
8 Recd. from T. Thompson & Son their 10-day note on acct., $700.00
10 Paid clerk's salary $15.00
15 Sold to T. Thompson & Son, 200 bu. oats @ $1.50, on acct.
16 Recd. of T. Thompson & Son their 30-day note for balance of invoice of 5/4, $500.00
17 Bot. of N. Y. Trading Co., on acct., 100 bbls. flour @ $10.00
18 Paid my note favor of H. Brown & Co., due today, $800.00
18 Recd. of T. Thompson & Son, in payment of their note of 5/8, $700.00
25 Gave N. Y. Trading Co., on acct., my 1-mo. note $750.00
29 Sold Franklin Bros., for cash, 600 bu. oats @ $1.50 and 100 bbls. flour @ $11.00

14. THE TRIAL BALANCE

In Section 5 the student was shown how to prepare a Trial Balance of Totals. He should now prepare such a Trial Balance from the Ledger accounts after posting Exercise 13*B*, and his result should be as follows:

Trial Balance

	H. Guither, Proprietor			3000	00
	Cash	4700	00	922	00
	Mdse.	2800	00	3500	00
	Expense	122	00		
	H. Brown & Co.	800	00	800	00
	T. Thompson	1500	00	1200	00
	Notes Payable	800	00	1550	00
	Notes Receivable	1200	00	700	00
	N. Y. Trading Co.	750	00	1000	00
		12672	00	12672	00

The above Trial Balance is a summary of the Ledger, and, as we know, is employed as a test of correct posting. As a summary of the

accounts, it can be made more useful by means of slight changes. For instance, why not omit the account of H. Brown & Co.? If we do so, the total of each side becomes $11,872.00. Cash account shows that we received $4,700.00 and spent $922.00. But the proprietor is more interested in the balance on hand, that is, in $3,778.00. Observe carefully that this balance may be obtained by deducting $922.00 from both sides of the Cash account, for if we do so the debit side becomes $3,778.00 and the credit side zero. After this double deduction, the totals of the debit and of the credit columns will be $10,950.00, *still equal to each other*. How is it that the totals are still equal? The student may have forgotten an axiom of his mathematics upon which the operation is based, namely, "Equals subtracted from equals give equals." A Trial Balance of such differences or balances is called *the* Trial Balance, and it is the form almost universally employed. Such an exhibit based on the Ledger of Exercise 13*B* follows:

Trial Balance, May 31, 19—

H. Guither, Prop.		$3,000.00
Cash	$3,778.00	
Mdse.		700.00
Expense	122.00	
T. Thompson & Son	300.00	
Notes Payable		750.00
Notes Receivable	500.00	
N. Y. Trading Co.		250.00
	$4,700.00	$4,700.00

Questions

1. What is a Trial Balance? What is its function?
2. Explain upon what principles of mathematics it is based.
3. What do the following accounts appearing in the above Trial Balance show?

(*a*) T. Thompson & Son, (*b*) N. Y. Trading Co, (*c*) Notes Receivable, (*d*) Notes Payable.

4. What kind of errors would a Trial Balance *not* disclose?

Exercise 14A. Drill

1. Copy the following form and fill in the last two money columns so as to obtain a Trial Balance:

L.F.[25]	Titles of the Ledger Accts.	Dr. Total		Cr. Total		Dr. Balance		Cr. Balance	
	Frank R. Crane, Capital	120	00	4,000	00				
	Cash	13,600	00	10,083	00				
	Mdse.	6,200	00	6,760	00				
	Expense	675	00	12	00				
	Thomas Browne	2,500	00	1,000	00				
	Rawlins & Sons	800	00	800	00				
	Smith & Foley	1,400	00						
	Lane & Court	920	00	350	00				
	Smith & Smith	1,040	00	800	00				
	Notes Receivable	3,000	00	1,200	00				
	James Talcott	2,650	00	5,500	00				
	Smiley & Co.	1,300	00	2,000	00				
	Babcock & Co.			700	00				
	Baff & Tramm	250	00	250	00				
	Notes Payable	1,700	00	2,700	00				
		36,155	00	36,155	00				

2. Tell all you can about the following accounts included above:

a. The Proprietor's account
b. Cash
c. Mdse.
d. Expense
e. Browne's account
f. Rawlin's account. (Be careful!)
g. Smith & Foley's account
h. Notes Receivable account
i. Talcott's account
j. Baff & Tramm's account
k. Notes Payable

[25] This column indicates the page (folio) in the Ledger on which the respective accounts appear. "L. F." is the abbreviation for Ledger folio.

3. Prepare a Trial Balance from the following "T" accounts:

Cash

$5,000.00	$160.00
200.00	15.00
500.00	210.00
100.00	350.00
65.00	

"Student," Proprietor

$15.00	$5,000.00
7.50	

Expense

160.00	

Merchandise

210.00	65.00
750.00	240.00
1,230.00	710.00
900.00	485.00
	960.00
	82.00
	7.50

Notes Receivable

500.00	500.00
500.00	

Notes Payable

	1,000.00

H. Jameson

1,000.00	210.00
210.00	1,230.00

R. A. Franke

350.00	750.00

C. T. Clynne

	900.00

Amos Trickert

65.00	65.00
82.00	

H. Levey & Co.

240.00	100.00

Seymour Kaley

710.00	500.00
485.00	500.00
960.00	200.00

Exercise 14B [26]

Prepare a Trial Balance from Exercise 12*B*.

[26] For additional exercises, see end of Part I.

15. THE PROGRESS OF THE BUSINESS [27]

One of the principal reasons for keeping books is that we are thereby able to learn how the business is getting along, that is, whether it is being profitably conducted or not.

We shall employ the transactions given in Exercise 12*B* as a basis for discussion. The Merchandise account shows that we bought goods costing $1,775.00 (debit side of Merchandise account) and sold them for $4,125.00, thereby gaining $2,350.00. But $2,350.00 does not represent our true profit, as we incurred certain expenses or losses, shown by Expense account. Deducting the losses of $115.00, we obtain a net profit of $2,235.00.

In Exercise 13*B* we might proceed similarly. We commenced with goods worth $1,000.00 which were invested by H. Guither, and purchased $1,800.00, thereby arriving at the total shown on the debit side of Merchandise account ($2,800.00). Goods costing us $2,800.00 were sold for $3,500.00, or at a profit of $700.00. Deducting the expenses of $122.00, we find the net profit to be $578.00. A simple form, often employed, follows:

Profit and Loss Statement of H. Guither

May, 19—

Merchandise on hand at beginning of period	$1,000.00	
Purchases	1,800.00	
Cost of merchandise sold	$2,800.00	
Proceeds of sales		$3,500.00
Profit on Merchandise, carried down [28]	700.00	
	$3,500.00	$3,500.00
Profit on Merchandise, brought down		$700.00
Loss shown by Expense account	$122.00	
Net Profit [28]	578.00	
	$700.00	700.00

[27] See footnote, page 19.

[28] Such items, including the figures, frequently appear in red ink. They represent differences added to the smaller side. Single and double lines are also in red ink.

Questions

1. How can you find the profit on merchandise?
2. How do you ascertain the net profit?
3. Under what conditions would a net loss exist?
4. What is a Profit and Loss Statement?
5. Explain how the progress of the business is determined by means of such a statement.

Exercise 15A. Drill

1. Bought goods costing $3,600.00 and sold them for $4,100.00. Expenses for the period amounted to $200.00. Find the net profit.

2. Find the net profit based upon the following accounts taken from the Ledger of H. C. Janeway:

Merchandise		Expense	
$1,000.00	$260.00	$108.00	$13.00
800.00	570.00	52.00	
3,210.00	450.00	103.00	
750.00	1,200.00		
	350.00		
	770.00		
	1,400.00		
	1,000.00		
	800.00		

3. Find the net profit or the net loss in the following case:

Merchandise		Expense	
$1,810.00	$ 500.00	$125.00	$12.00
575.00	1,250.00	34.00	
1,296.00	800.00	9.50	
	1,000.00		

4. Find the net loss in the following case:

Merchandise		Expense	
$1,400.00	$ 380.00	$75.00	
1,000.00	1,510.00	15.00	
250.00	725.00	3.00	

5. Find the net loss based upon the Trial Balance of Totals of Problem 1, Exercise 14*A*, page 49.

Exercise 15B [29]

Prepare a Profit and Loss Statement for Mr. F. D. Purse, Exercise 12*B*

[29] For additional exercises, see end of Part I.

16. THE CONDITION OF THE BUSINESS[30]

We have already learned how to test the progress of the business. It remains to be shown how to find the *condition*, that is, how much the business is worth.

A very simple way consists of adding the net profit to the proprietor's net investment. In the case of H. Guither, the original investment of $3,000.00 was neither increased nor diminished, so the net investment is $3,000.00. Add to this the net profit of $578.00 shown by the Profit & Loss Statement, and we obtain $3,578.00 as his *net capital* or *present worth.*

The usual method of obtaining the present worth is not quite so simple. It is customary to list everything of value owned by the business—*its assets*—and also to list everything it owes—its *liabilities.* The difference between what the business owns (o–w–n–s) and what it owes (o–w–e–s)—the excess of its assets over its liabilities—is the *present worth* or *net capital.*

Let us consider the business of H. Guither (page 47). The Trial Balance shows that he has cash amounting to $3,778.00, that T. Thompson & Son owe him $300.00, and that he holds written promises to pay him amounting to $500.00. The total of those assets is $4,578.00. His liabilities consist of his outstanding promises to pay others, Notes Payable, $750,00, and the balance due the N. Y. Trading Co., $250.00, a total of $1,000.00. $4,578.00 less $1,000.00 shows a net capital of $3,578.00, just as in the first and simpler case. A common form follows:

Statement of Assets and Liabilities of H. Guither

May 31, 19—

Cash	$3,778.00	
T. Thompson & Son	300.00	
Notes Receivable	500.00	
Total assets	$4,578.00	
Notes Payable		$750.00
N. Y. Trading Co.		250.00
Total Liabilities		1,000.00
* Present worth[31]		3,578.00
	$4,578.00	$4,578.00

[30] See footnote, page 19.

[31] In this text, all items starred, but not specifically explained in footnotes, indicate that red ink is employed. The student should know, however, that business men no longer use red ink as frequently as they once did. Nevertheless, for the present, the reader should continue to employ red ink.

The first method of determining the net capital, that is, by adding the net profit to the net investment, is sometimes regarded as a proof of the correctness of this item as shown by the Statement of Assets and Liabilities. Often, too, the proof is incorporated in this Statement. If this is done, then the form becomes:

Statement of Assets and Liabilities of H. Guither

May 31, 19—

Cash		$3,778.00	
T. Thompson & Son		300.00	
Notes Receivable		500.00	
Total Assets		$4,578.00	
Notes Payable			$750.00
N. Y. Trading Co			250.00
Total Liabilities			1,000.00
Net Capital:			
H. Guither's net investment	$3,000.00		
Plus Net Profit	578.00		
* Net Capital			3,578.00
		$4,578.00	$4,578.00

The student will find it easier to remember the main points of this and of the preceding section, if he will familiarize himself with the following formulae:

1. Profits minus losses equal net profit.

$$P-L=N.\ P.$$

2. Net investment plus net profit equals net capital.

$$N.\ I.+N.\ P.=N.\ C.$$

3. Assets minus liabilities equal net capital.

$$A.-L.=N.\ C.$$

Questions

1. Define: (*a*) assets, (*b*) liabilities, (*c*) net capital.

2. How do you ascertain the net capital? Can you test its correctness? Explain.

3. What is the object of finding the present worth or net capital?

4. Derive the following formulae:
   (a) For the N. L., when the losses are greater than the profits.
   (b) For the N. C., in such a case.
   (c) For the N. P., when the N. I. and the N. C. are known.

Exercise 16A. Drill

1. In connection with Problem 2, Exercise 15*A*, page 52, determine the net capital of the proprietor:

H. C. Janeway, Capital

$200.00	$2,500.00
	100.00

2. The other accounts in Mr. Janeway's Ledger were:

Cash

$2,500.00	$ 200.00
100.00	108.00
13.00	800.00
570.00	103.00
1,500.00	52.00
1,000.00	500.00
1,200.00	1,000.00

Notes Receivable

$260.00	

H. Long & Bro.

570.00	570.00
770.00	1,000.00
1,400.00	

Smith & Smith

450.00	$1,500.00
1,200.00	1,200.00
350.00	
1,000.00	
800.00	

Notes Payable

500.00	500.00
	1,500.00

F. D. Pinsan

	1,000.00

Smythe & Co.

$ 500.00	$3,210.00
1,500.00	750.00
1,000.00	

Prepare a Statement of Assets and Liabilities.

3. Find the net capital of Frank R. Crane (Problem 1, Exercise 14*A*, page 49), by means of a Statement of Assets and Liabilities.

4. Prove the correctness of Mr. Crane's net capital by employing the net loss found for Problem 5, Exercise 15*A*, page 52.

5. Find the net profit or net loss, and the net capital for Problem 3, Exercise 14*A*, page 50.

Exercise 16B [32]

Prepare a Statement of Assets and Liabilities for Mr. F. D. Purse, Exercise 12*B*, page 41.

17. DISCOUNT ON PURCHASES

We very frequently buy goods with the privilege of paying within a certain period, and with the further privilege of deducting a certain discount for earlier settlement. Examples of such transactions are:

Aug. 1 Bot. of American Woolen Co., 2/30, n/60, 150 yds. broadcloth @ $2.00
Aug. 3 Bot. of A. C. Cotton Co., 2/60, n/90, 1,500 yds. prints @ 6c.

"2/30, n/60" signifies that if paid within thirty days we may deduct two per cent from the invoice, otherwise we must pay within sixty days the full (net) amount.[33] "2/60, n/90" means that we are entitled to two per cent if we settle within sixty days, or that we may wait ninety days from the date of the invoice, at the end of which period we must pay the full amount of the bill.

The Journal entries follow:

	Aug. 1, 19—		
Mdse.	Bot. on acct.,[34] 2/30, n/60,	$300.00	
American Woolen Co.	150 yds. broadcloth @ $2.00		$300.00
	3,		
Mdse.	Bot., 2/60, n/90,	90.00	
A. C. Cotton Co.	1,500 yds. prints @ 6c.		90.00

We must now consider the entry required for the following transaction:

Aug. 29 Paid American Woolen Co., cash in full of invoice of Aug. 1, less 2%, $294.00

As we gave $294.00 in cash, Cash account must be credited for $294.00. This amount was accepted by the American Woolen Co. as

[32] For additional exercises, see end of Part I.
[33] See page 363.
[34] "On acct." is not essential. See the entry of the 3rd inst.

the equivalent of $300.00; therefore, as we owe them nothing now and as we received back their $300.00 claim against us, their account must be closed by charging it with $300.00. Thus far we have a debit of $300.00 and a credit of $294.00, and we must find some appropriate account to credit for an additional $6.00, in order to observe the fundamental principle of our subject. At this point, the solution might be written thus:

American Woolen Co.	$300.00	
Cash		$294.00
?		6.00

To which account shall we credit the $6.00? What did we give? We gave the *use* of money; in this case, we gave $294.00 thirty days ahead of time. Such use of money is usually called *interest* when added and *discount* when deducted. To differentiate this particular kind of discount from others to be studied subsequently, we call it Discount on Purchases. Hence we may substitute for the interrogation mark (?) in the above entry, " use of our money ahead of time," or, more practically and simply, what we may regard as a synonym, " Discount on Purchases." The complete entry becomes:

	Aug. 29, 19—		
American Woolen Co.	Paid invoice of 8/1,	$300.00	
Cash	less 2%		$294.00
Discount on Purchases			6.00

If we paid the A. C. Cotton Co. on September 30, we would deduct two per cent of $90.00, and make the following entry:

	Sept. 30, 19—		
A. C. Cotton Co.	Paid invoice of 8/3,	$90.00	
Cash	less 2%		$88.20
Discount on Purchases			1.80

Observe that as a result of these two transactions we saved $7.80, that the items appear on the *credit* side of the Discount on Purchases account, and that they represent a profit to the business. A good way to remember that items of this kind, appearing on the credit side of such account, are profits, is to use the Expense account as a sort of touchstone. Expense is a loss to the business and always has a debit balance; accounts like Expense account, having debit balances are likewise losses; if they have a credit balance, like the Discount on Purchases account in question, they indicate a profit.

Questions

1. Why do we prepay our purchases?

2. What per cent per year do we make when we avail ourselves of the following terms: "2/10, n/30," and deduct 2% at the expiration of 10 days?

3. Assume that money at interest is worth 6% per annum. How much better for us is it to deduct the 2% in problem 2, above, than to wait 30 days before settling for the purchase?

4. Show that the general rule for crediting accounts, namely, "credit appropriately named accounts whenever the business gives anything," applies to Discount on Purchases account.

5. Why is the Discount on Purchases account a profit to the business?

Exercise 17A. Drill

1. Orally journalize the following transactions:

a. On Apr. 6, bot. of Brown, mdse, $1,000.00, terms 1/10, n/30
b. Paid Brown on Apr. 16, cash in full, $———
c. May 5, bot. of Bailey, mdse. 2/10, n/30, $1,500.00
d. May 14, paid Bailey cash in full of invoice $———
e. On Sept. 5, bot. mdse. from Plunkett & Co., 2/10, n/30, $1,800.00
f. Oct. 4, paid Plunkett & Co. cash in full, $———
g. Mar. 29, purchased mdse. from Townsend & Trumm, 2/10, 1/30, n/60, $3,000.00
h. Paid Townsend & Trumm on Apr. 27, cash in full, $———
i. If we had paid Townsend & Trumm on Apr. 7, what entry?
j. Had we not paid Townsend & Trumm until May 27, what entry?
k. On Apr. 26, paid Smith & Co. cash in full for invoice of Apr. 16, terms 2/10, n/30, $1,960.00. What was the amount of the invoice?
l. $3,430.00 paid an invoice bought 10 days earlier, terms 2/10, n/30. What was the amount of the invoice?

2. Supply probable explanations for the following Journal entries:

a.	Nov. 5		
	Thos. Fraille	$400.00	
	Cash		$392.00
	Dis. on Purchases		8.00
b.	Sept. 16		
	Smith & Brown	1,200.00	
	Cash		1,188.00
	Dis. on Purchases		12.00
	Date		
	Creditor's name		
	Cash		
	Dis. on Purchases		

3. Analyze the following accounts:

(*a*)

Merchandise

$1,000.00	
3,500.00	
2,400.00	
1,600.00	

Barnum & Co.

$3.500.00	$3,500.00
1,600.00	2,400.00
1,600.00	1,600.00

Cash

	$1,000.00
	3,500.00
	1.568.00

Discount on Purchases

	32.00

(*b*)

Merchandise

May 8	2,000.00		
18	1,500.00		
June 14	1,500.00		
16	1,800.00		

Tracy & Fee

May 14	2,000.00	May 8	2,000.00
June 17	1,500.00	18	1,500.00
26	1,800.00	June 14	1,500.00
		16	1,800.00

Cash

		May 14	1,960.00
		June 17	1,500.00
		26	1,764.00

Discount on Purchases

		May 14	40.00
		June 26	36.00

Exercise 17B [35]

Journalize the following transactions:

June 1 John Master began business by investing cash $3,000.00
2 Paid rent of store $75.00
3 Bot. of R. Smith, 2/10, n/30, mdse. $600.00
4 Bot. of John Jones & Co., 2/10, n/30, mdse. $1,000.00
5 Bot. of T. Simpson, 2/10, n/30, mdse. $1,500.00
6 Sold John Tate for cash, mdse. $1,000.00. Paid salaries, $20.00, cash
8 Bot. of R. Smith, 2/10, n/30, mdse. $800.00
9 Paid R. Smith, on acct. $500.00
10 Bot. of John Jones & Co., 2/10, n/30, mdse. $1,000.00
11 Sold to T. Jackson, for cash, mdse. $2,500.00

[35] For additional exercises, see end of Part I.

12 Bot. of R. Smith, 2/10, n/30, mdse. $1,200.00
13 Paid R. Smith, cash in full of invoice of 6/3, less 2%, $588.00. Paid salary $20.00
14 Paid John Jones & Co., cash in full of invoice of 6/4, less 2%, $980.00
15 Paid T. Simpson, cash in full of invoice of 6/5, less 2%, $1.470.00

18. DISCOUNT ON SALES

We often sell goods to customers, giving them the privilege of paying at some future time, or, by paying before the expiration of such a period, to deduct a discount. Suppose that we sold Franklin & Lyon goods invoiced at $1,000.00, on August 5, the terms being 2/10, n/30, and that they paid on August 15. In this case we would receive $980.00 in full settlement. We would also receive the use of money ahead of time, and hence we must debit some discount account. As this was an allowance on sales, it is called Discount on Sales account, and we obtain the following entry:

	Aug. 15, 19—		
Cash	Recd. payment for Inv.	$980.00	
Discount on Sales	of 8/5, less 2%	20.00	
Franklin & Lyon			$1,000.00

The student should note that Discount on Sales account is a loss to us, and that its balance appears on the debit side of the account.

Questions

1. What is meant by terms "2/10, n/30" and by "1/30, n/60"?
2. Why do customers prepay our sales to them?
3. Is Discount on Sales account a profit or a loss to the business? Explain fully.
4. Distinguish between discount on sales and discount on purchases?
5. Show that the general rule for debiting accounts applies to Discount on Sales account?

Exercise 18A. Drill

1. Orally journalize the following transactions:

a. On Apr. 6, sold Brown, mdse. $1,000.00, terms 1/10, n/30
b. Recd. from Brown on Apr. 16, cash in full, $———
c. May 5, sold Bailey, mdse. 2/10, n/30, $1,500.00
d. May 15, recd. from Bailey, cash in full of invoice $———
e. On Sept. 5, sold mdse. to Plunkett & Co., 2/10, n/30, $1,800.00

f. Oct. 4, recd. from Plunkett & Co. cash in full, $——
g. March 29, sold mdse. to Townsend & Trumm, 2/10, 1/30, n/60, $3,000.00
h. Recd. from Townsend & Trumm on Apr. 27, cash in full, $——
i. If Townsend & Trumm had paid us on Apr. 7, what entry?
j. Had Townsend & Trumm not paid us until May 26, what entry?
k. On Apr. 26, received from Smith & Co. cash in full for invoice of Apr. 16, terms 2/10, n/30, $1,960.00. What was the amount of the invoice?
l. $3,430.00 paid an invoice bought 10 days earlier, terms 2/10, n/30. What was the amount of the invoice?

2. Supply probable explanations for the following Journal entries:

Oct. 13		
Cash	$2,450.00	
Discount on Sales	50.00	
Frank M. Manning		$2,500.00
May 3		
Cash	1,663.20	
Discount on Sales	16.80	
Hildredth & Sons		1,680.00
Dec. 11		
Cash		
Discount on Sales	....	
Swift & Thorpe		

3. Analyze the following accounts:

(*a*) **Merchandise**

Dr.	Cr.
	$1,800.00
	525.00
	2,000.00
	1,000.00

Cash

Dr.	Cr.
$525.00	
1,764.00	
990.00	

H. H. Hempstead

Dr.	Cr.
$1,800.00	1,800.00
2,000.00	1,000.00
1,000.00	

Discount on Sales

Dr.	Cr.
36.00	
10.00	

(*b*)

Merchandise

Apr. 3	100.00	Apr. 21	300.00
19	1,700.00	May 19	1,500.00
May 3	600.00	31	650.00
June 6	2,400.00		

Cash

Apr. 21	300.00	Apr. 3	$100.00
May 28	1,470.00	19	1,666.00
July 29	650.00	July 1	600.00

Marvin Long

Apr. 19	1,700.00	Apr. 9	1,700.00
July 1	600.00	May 3	600.00
		June 6	2,400.00

Lane & Lane

May 19	1,500.00	May 28	1,500.00
31	650.00	July 29	650.00

Discount on Sales

May 28	30.00		

Discount on Purchases

		Apr. 19	34.00

Exercise 18B [36]

Journalize the following transactions:

June 1 Frank Collins began business by investing cash $2,500.00
2 Paid rent of store $50.00
3 Bot. of Jack Sweet, 2/10, n/30, mdse. $3,000.00
4 Sold to John Brown, 2/10, n/30, mdse. $1,000.00
5 Bot. of Jones & Jackson, on acct., mdse. $2,500.00
6 Sold to Young Bros., 2/10, n/30, mdse. $800.00. Sold to T. Smithson, 2/10, n/30, mdse. $1,200.00. Paid salary $15.00
8 Gave Jones & Jackson, $500.00, cash, on acct.
10 Mr. Collins took mdse. for private use $15.00
12 Sold to H. Stern, 2/10, n/30, mdse $600.00
13 Paid salary $15.00
14 Recd. from John Brown, cash in full of invoice of 6/4, less 2%, $980
16 Recd. from Young Bros., cash in full of invoice of 6/6, less 2%, $784
Recd. from T. Smithson, cash in full of inv. of 6/6, less 2%, $1,176.00

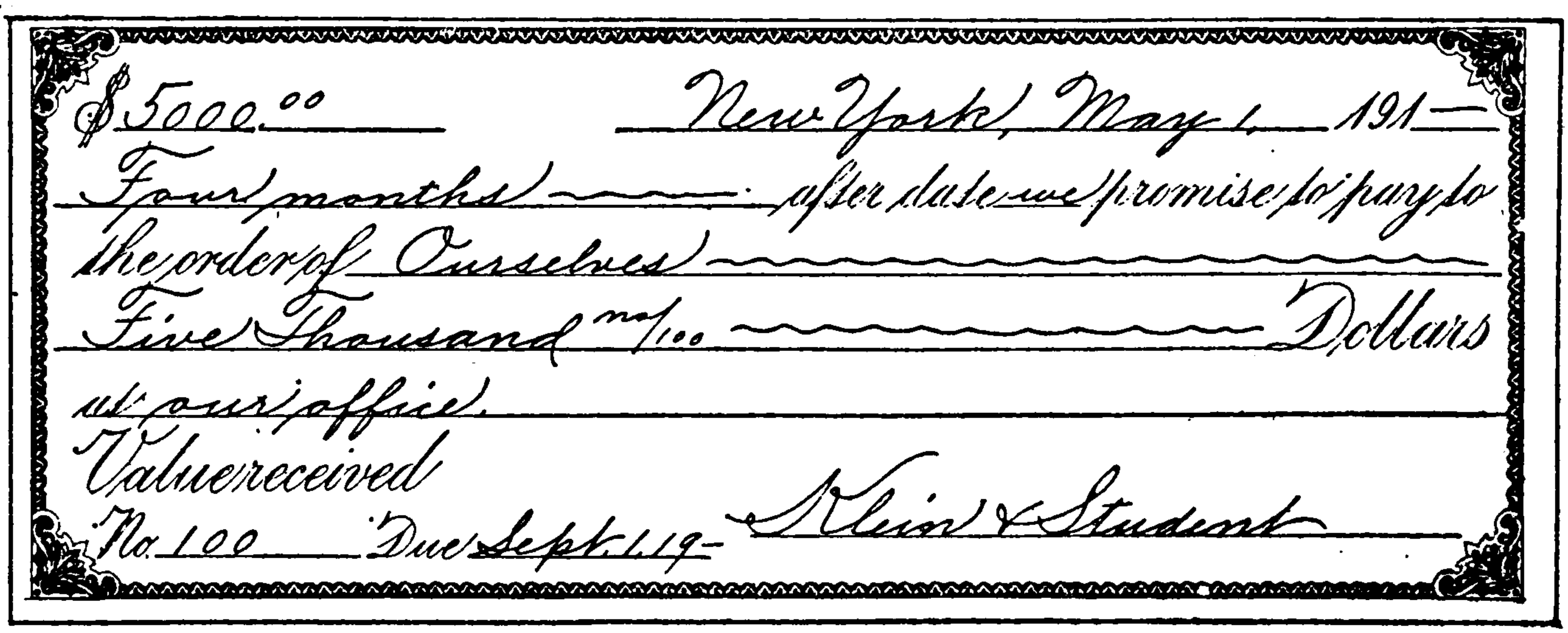
[36] For additional exercises, see end of Part I.

19. DISCOUNT ON NOTES

One reason why we take promissory notes from our customers is because we may be able to sell them to, or, as we say, " discount them " at, the bank. Assume that on April 4, we received a sixty-day note of $1,000.00 from a customer and that on April 16, we discounted it at our bank " at six per cent." On April 4, we debited Notes Receivable account but on the 16th we credited the account.[37] Why did we dispose of the note? Because we received money for it, in this case $992.00 ($1,000.00 less 48 days discount @ 6% on $1,000.00 or less $8.00). As we received the use of money—the bank paid us on April 16, so that we did not have to wait until maturity, June 3—we must debit some discount account. We shall call this account Discount on Notes, though in our later studies we may modify this term as we may also modify the following entry:

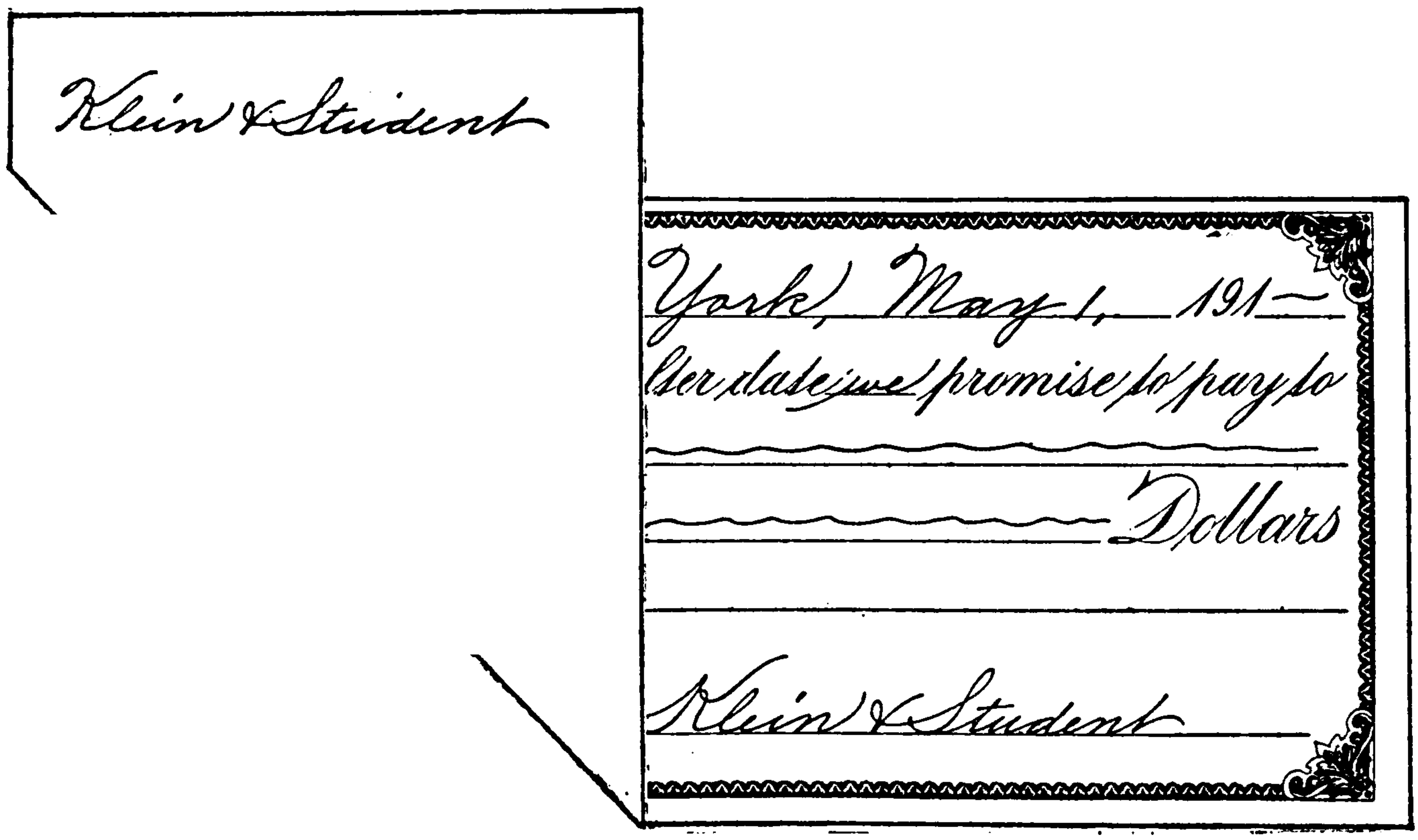
	Aug. 16, 19—		
Cash	Discounted R. Brown's note	$992.00	
Discount on Notes	of 4/4, in our favor, less	8.00	
Notes Receivable	48 days' discount		$1,000.00

In the Metropolitan district, and throughout the large commercial and industrial centers, there is an increasing tendency to borrow money not by discounting Notes Receivable, but by what is known as " selling *single name* paper." If we wished to raise $5,000.00 we might borrow it from our bank, offering, say, a four-months' note, or sell such a note to a note broker who would dispose of it " on the Street " or through other channels. The form of such a note, without the indorsement, is:

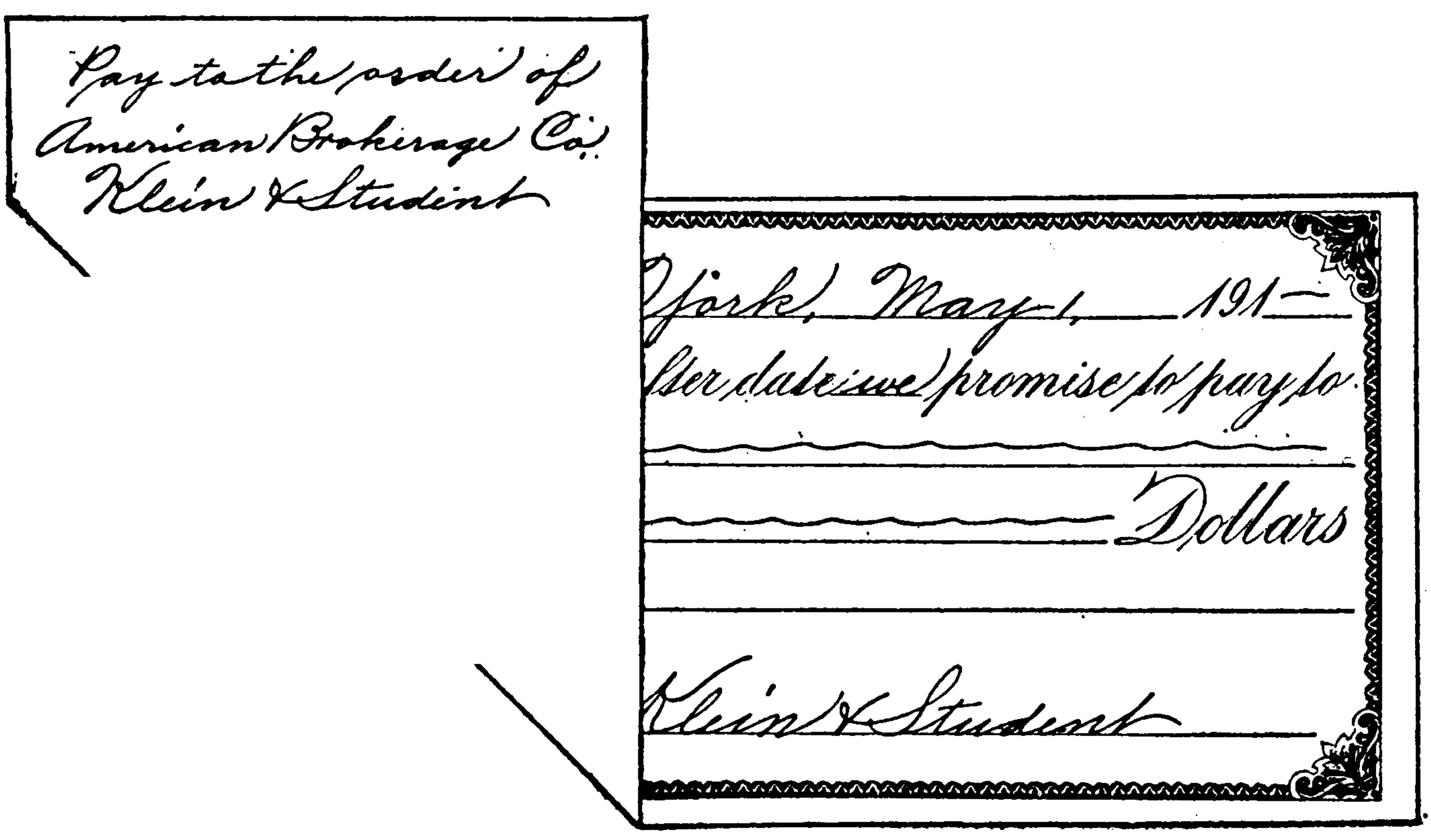

$5000.00 New York, May 1 191—
Four months after date we promise to pay to
the order of Ourselves
Five Thousand no/100 Dollars
at our office.
Value received
No. 100 Due Sept. 1 19— Klein & Student

[37] Contingent liabilities (*see* "Elements of Accounting," pp. 29–30) are purposely avoided here.

This note would be, almost universally, indorsed "in blank":



Or, though very rarely, it would be "indorsed in full", i.e., it would designate to whom it had been transferred:



If we dispose of it to our bank, at a discount of five per cent, the entry is:

May 1, 19—

Cash	Discounted our 4-mo. note	$4,914.58	
Discount on Notes	at our bank, @ 5%	85.42	
Notes Payable			$5,000.00

If the same note has been "sold" to a broker, the explanation accompanying the entry would clearly indicate the fact:

May 1, 19—

Cash	Sold our 4-mo. note to Amer.	$4,914.58	
Discount on Notes	Note Brokerage Co., less 5%	85.42	
Notes Payable			$5,000.00

Questions

1. Would you prefer to sell on account or on a 30-day note? Explain.
2. Differentiate between discount on notes and discount on sales.
3. Of what advantage is it to hold a note received from a customer till maturity instead of discounting it?
4. How does an ordinary promissory note received from a customer differ from single name paper?
5. Why must promissory notes be indorsed before they are transferred to others?
6. You have learned that notes receivable may either be held by us until maturity and then settled by the maker who pays us in cancellation thereof, or that we may discount the note before maturity, should we wish to convert it into money. Can you think of any other use to which such notes may be put by us before their maturity?
7. Show that the general rule for debiting accounts applies to Discount on Notes account.

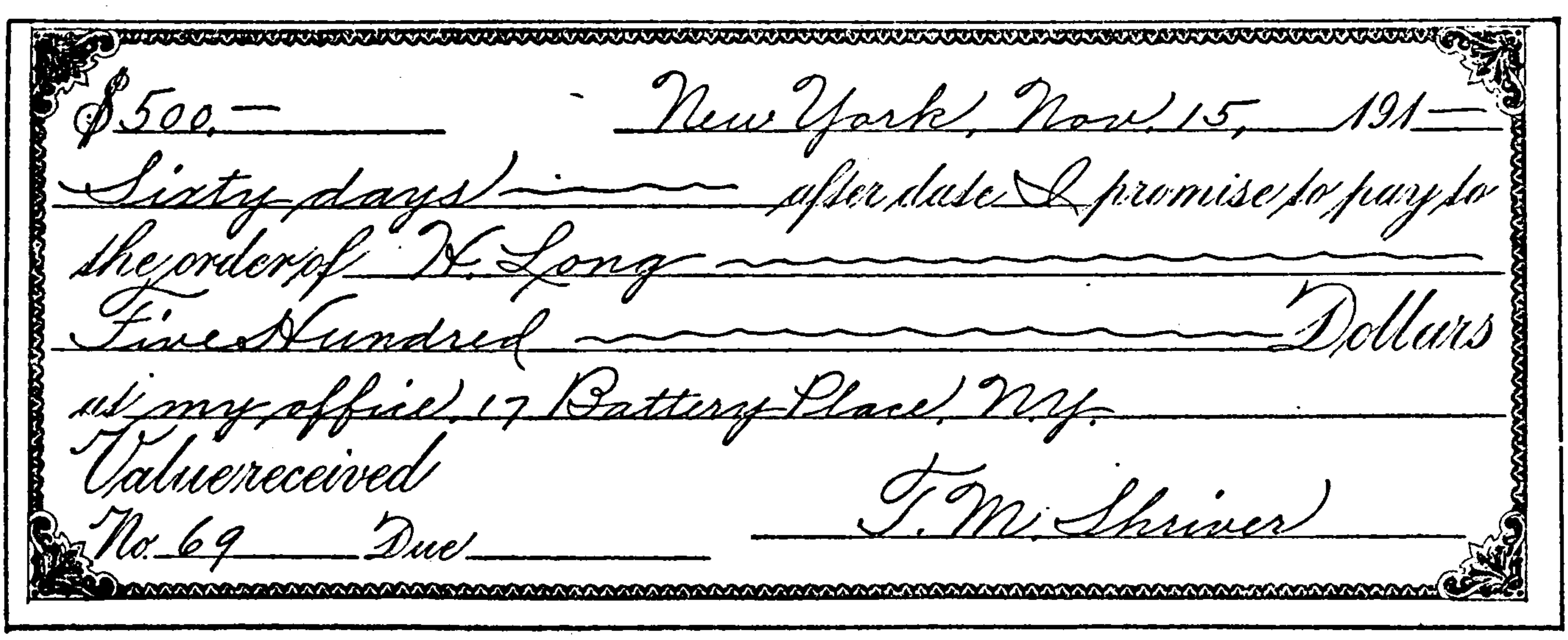
Exercise 19A. Drill

1. Orally journalize the following transactions:

a. Recd. a note from Smith in full of acct. ($1,000.00)
b. Discounted Smith's note at bank. (Proceeds $990.00)
c. Brown gave us his 30-day note on acct. ($2,000.00)
d. Discounted Brown's note today. (Proceeds $1,995.00)
e. Discounted my own 60-day note at the bank (face $1,000.00, discount $10.00)
f. Sold Brown & Co. mdse. on acct. ($2,400.00)
g. Brown & Co. gave us their 60-day note in full ($2,400.00)

h. Discounted Brown & Co.'s note. (Discount $16.80)
i. Recd. from Jones his 30-day note on acct. ($1,500.00)
j. Gave Bailey & Co. the Jones note, on acct. ($1,500.00)
(Careful now! What did we give? Why is it incorrect to say "Notes Payable"?)
k. Southey gave us his 30-day note in full of acct. ($1,250.00)
l. Transferred the Southey note by indorsement to Blewett, on acct. ($1,250.00)
m. Holt & Co., gave us their 60-day note in full ($4,000.00)
n. Discounted Holt & Co.'s note. (Proceeds $3,990.00)
o. Sold my own 4-mos. note to a note broker. (Discount $100.00; proceeds $4,900.00)

2. On Nov. 16, 19—, H. Long received the following note from T. M. Shriver:


$500— New York, Nov. 15, 191—
Sixty days after date I promise to pay to the order of H. Long
Five Hundred Dollars
at my office 17 Battery Place, N.Y.
Value received
No. 69 Due T. M. Shriver

a. Show the entry in T. M. Shriver's books on Nov. 15.
b. Show the entry in H. Long's books on Nov. 16.
c. This note was discounted at the Second National Bank on December 15, 19—, at 6%. Find the proceeds.
d. By whom was it discounted?
e. Show the indorsement in full.
f. Show the entry in Long's books on Dec. 15.
g. Show the entry in Shriver's books on Dec. 15. (What did Shriver give today? What did he receive? Are you sure that he actually gave something? Received something?)
h. What should happen on Jan. 15, 19—?
i. Show the entry in Shriver's books on Jan. 15.
j. Show the entry in Long's books on Jan. 15. (What did Long receive today? What did he give? Are you sure?)

3. For each note, show all the entries under proper dates, in the books of both the maker and the payee:

Nos.	Face		Date	Maker	Payee	When recd. by Payee	Time	When Disc.	Rate of Dis.
I	$1,000	00	Mar. 16, 19—	T. Timmer	S. Snow	Mar. 18, 19—	30 days	Mar. 31	6%
II	2,400	00	Sept. 4, 19—	L. Lane	W. White	Sept. 5, 19—	60 days	Sept. 19	6%
III	3,000	00	Oct. 3, 19—	F. Frost	F. Frost	....	90 days	Oct. 3	6%
IV	2,000	00	Apr. 4, 19—	H. Hope	Himself	....	4 mos.	Apr. 4	5%
V	3,600	00	June 6, 19—	M. Marks	N. Natt	June 9, 19—	60 days	June 26	5%

4. Supply the probable explanations for the following Journal entries:

July 3		
Notes Receivable	$3,000.00	
M. L. Lane		$3,000.00
July 15		
Cash	2,991.00	
Dis. on Notes	9.00	
Notes Receivable		3,000.00
Sept. 6		
Cash	4,950.00	
Dis. on Notes	50.00	
Notes Payable		5,000.00
Dec. 31		
L. M. Parsons	2,000.00	
Notes Receivable		2,000.00

Exercise 19B [38]

Journalize the following transactions:

July 1 James Flynn began business by investing cash $4,000.00
2 Paid rent of store $75.00
Bot. of Frank Rollins, on acct., mdse. $3,000.00
Bot. of Murray & Sons, on acct., mdse. $2,500.00
Sold to Jack Bright, for cash, mdse. $800.00
3 Sold to Benton & Co., on their 30-day note, mdse. $1,000.00. Paid salaries $25.00 cash
8 Gave Murray & Sons my 2-mo. note, in payment of invoice of 7/3, $2,500.00
9 Sold to A. Ralph, on acct., mdse. $1,000.00

[38] For additional exercises, see end of Part I.

10 Recd. from A. Ralph, his 1-mo. note in payment of invoice of 7/9, $1,000.00

11 Sold to B. Smythe, on acct., mdse. $1.000.00. Discounted Benton's 30-day note of 7/6 at the First National Bank, receiving credit for the proceeds

12 Discounted A. Ralph's 1-mo. note. of 7/10, at the First National Bank, receiving credit for the net proceeds

15 Borrowed money from the bank on my 2-mo. note, dated today, at 5%, face of note, $1,000.00

20. DISCOUNTS

We have just discussed three important discount accounts. Though some bookkeepers keep a single discount account, it is better to follow the example set by accountants who favor the three accounts presented, as well as a number of additional ones with which the student may familiarize himself by further study.

Before proceeding to other topics, it is well to afford an opportunity to drill on the discount accounts introduced in Sections 17, 18 and 19, and the following questions and exercises are accordingly set for solution.

Questions

1. Distinguish between: (*a*) discount on sales; (*b*) discount on purchases; (*c*) discount on notes.
2. Why must the Discount on Notes account always have a debit balance?
3. Why do we discount notes? Prepay purchases?
4. Why do customers prepay our sales to them?
5. What factor is used in finding the discount on notes which is not used in finding discount on sales?
6. Show that the general rule for journalizing (debiting and crediting) applies to all discount accounts.
7. Differentiate between interest and discount.
8. How can you tell whether a discount account is a loss or a profit to the business.

Exercise 20A. Drill

1. Orally journalize the following transactions:

   a. Frost paid us for invoice, less 2%. (Net cash $294.00)

   b. Discounted my own 60-day note at bank. (Face $3,500; discount $35.00)

   c. Sold Lott & Son mdse. 2/10, n/30. ($600.00)

d. Lott & Son paid us in full, less 2%. ($———)
e. Bot. of Browning mdse. 2/10, n/30. ($800.00)
f. Paid Browning cash in full of invoice, less 2%. ($———)
g. Recd. Longworthy's 30-day note in full of acct. ($400.00)
h. Indorsed Longworthy's note to Kraft, on acct. ($———)
i. Sold Silverman, mdse. on acct. ($1,000.00)
j. Recd. from Silverman his 30-day note in full of acct. ($1,000.00)
k. Discounted Silvermann's note 6 days before maturity, at 6%. (Discount $1.00)

2. Copy the following form, and arrange the foregoing transactions therein:

Item	Accts. Debited	Why	Accts. Credited	Why
a.	Cash $294.00 Dis. on Sales 6.00	Business recd. money Business recd. use of money	Frost $300.00	Business gave (returned or canceled) claim against Frost
b.	Cash $3,465.00 Dis. on Notes 35.00	Business recd. money Business recd. use of money	Notes Payable $3,500.00	Business gave (issued) written promise to pay.
c.				
d.				
e.				
f.	Browning $800.00	Business recd. (return of) claim in favor of Browning	Cash $784.00 Dis. on Purchases 16.00	Business gave money Business gave use of money

3. Make all necessary entries in books of buyer and of seller:

Item	Date	Amount	Buyer	Seller	Terms	When Paid	How Settled
I	Jan. 3	$ 360.00	Smith	Jones	2/10, n/30	Jan. 12	Cash
II	Mar. 16	1,020.00	Long	Thorpe	1/30, n/60	Apr. 14	Check
III	July 8	510.00	Ludlow	Flatow	2/10, 1/30	Sept. 10	Check
IV	Sept. 30	375.00	Siegel	Bailey	Net	Oct. 8	Check
V	June 21	2,450.00	McCabe	Schwartz	Cash	July 2	Check
VI	Dec. 29	109.00	Block	Greene	On acct.	Feb. 15	30-day note

Exercise 20B [39]

Journalize the following transactions:

June 1 Student (supply your own name) began business by investing cash $2,000.00 and mdse. $1,500.00
2 Sold to T. R. Kane, mdse. on account, $600.00
3 Bot. of Kahn & Co., on my 15-day note, mdse. $1,000.00
3 Bot. of Lake & Son, 2/10, n/30, mdse. $1,000.00
4 Paid rent and other expense items, $110.00
6 Discounted at the bank my own 4-mo. note, $5,000.00 [40]
8 Recd. of T. R. Kane, his 30-day note, on acct., $500.00
8 Sold to B. B. Barnum, 2/10, n/30, mdse. $1,200.00.
10 Discounted T. R. Kane's note of 6/8 at bank
12 Sold my 90-day note for $2,500.00 to a broker, at 5%
13 Paid Lake & Son, invoice of 6/3, less 2%
13 Sold R. Brown, mdse. $1,000.00, receiving his 15-day note for $500.00 and balance in cash
15 Discounted R. Brown's note at our bank
18 Paid my note favor of Kahn & Co., due to-day, $1,000.00
18 Recd. of B. B. Barnum, in full for invoice of 6/8, less 2%, $1,176.00
20 Bot. of Kahn & Co., mdse. $2,000.00, giving cash $500.00, my 2-mo. note for $1,000.00, balance on acct.

21. RETURNS OF MERCHANDISE

After buying certain goods for cash, we may wish to return all or part of them. If we are permitted to do so, and our money is refunded, the following entry results:

Cash	Returned to John Brown,	$——	
Mdse.	because of defects,		$——
	—— yds —— @ ——		

Had the original purchase from John Brown been on account, it is probable that as a result of such a return he would issue to us a "credit memorandum," and instead of giving us money, credit our account in his books. What would our entry be? As we gave goods, the credit entry is simple. Is not this giving of merchandise to Brown similar to our giving him cash? And if so the following entry is correct:

John Brown	$——	
Mdse.		$——

[39] For additional exercises, see end of Part I.
[40] When no rate is mentioned employ the legal one. In New York State it is six per cent.

But goods are also returned to us. The entry for a cash sale, returned to us, for which money was refunded by us, is:

Mdse.	$———	
Cash		$———

In case we accepted the return of such goods, and issued a "credit memorandum" for the same, assuming that our customer's name was F. F. Pierce, the proper entry is:

Mdse.	$———	
F. F. Pierce		$———

Questions

1. Why are goods returned?
2. What entry is made when we return goods, receiving cash for the same?
3. Show the entry when we issue a credit memorandum for goods returned to us by Carlson & Co.
4. Suppose that after buying and paying for some stationery we decided not to use it, and returned it for cash. What entry?
5. What entry is made when we return expense items and receive cash therefor?

Exercise 21A. Drill.

Orally journalize the following transactions:

1. *a*. Bot. of Simpson, mdse. on acct. ($500.00)
   b. Retd. to Simpson part of purchase. ($25.00)
   c. Paid Simpson balance of acct. ($———)
   d. Bot. of Crawford, mdse. on acct. ($300.00)
   e. Retd. to Crawford entire purchase. ($300.00)
   f. Bot. of Brown & Co., mdse. 2/10, n/30. ($800.00)
   g. Retd. $50.00 worth of mdse. to Brown & Co., and paid balance in cash, less 2%. (Net $735.00)
   h. Sold Lane, mdse. on acct. ($600.00)
   i. Recd. from Lane return of part of sale. ($80.00)
   j. Lane paid us balance of acct. in cash. ($520.00)
   k. Sold Price, mdse. 2/10, n/30 ($800.00)
   l. Price retd. above sale. ($800.00)
   m. Sold Marvin, mdse. 2/10, n/30. ($900.00)
   n. Marvin retd. part of above sale ($30.00), and paid balance in cash less 2%. (Discount $17.40)
   o. Bot. stationery for cash. ($10.00)
   p. Retd. stationery and recd. cash therefor. ($10.00)
   q. Paid printing bill. ($18.00)
   r. Printer retd. $2.00 cash overcharged us in above bill.

2. Employing the form shown for Problem 2, Exercise 20A, page 69, enter therein the foregoing transactions.

3. Analyze the following accounts:

(*a*)

F. L. Treat

$360.00	$ 40.00
1,040.00	28.00
910.00	320.00
	910.00
	1,040.00

Merchandise

$40.00	$ 360.00
28.00	1,040.00
910.00	910.00

Cash

313.60	
1,019.20	

Discount on Sales

6.40	
20.80	

(*b*)

Merchandise

2,100.00	100.00
4,400.00	180.00

Sebastian Bros.

100.00	2,100.00
2,000.00	4,400.00
180.00	
1,500.00	

Discount on Purchases

	60.00

Cash

	1,940.00
	1,500.00

Exercise 21B [41]

Journalize the following transactions:

May 1 H. Siegel began the flour and grain business by investing cash, $5,000.00

2 Bot. of T. Brown, 100 bbls. flour @ $7.00 and 200 bu. grain @ $1.00 for cash

3 Paid rent $50.00 and sundry expense items $24.00, cash

4 Bot. of Chicago Flour Co., on acct., 100 bbls. flour @ $6.90

5 Retd. to T. Brown, for cash, 10 bbls. flour @ $7.00

Sold to Thompson & Bro., cash, 100 bu. grain @ $1.25

6 Sold to Arnold & Co., on acct., 50 bbls. flour @ $9.00

Sold to Bennett & Son, on acct., 50 bu. grain @ $1.20 and 20 bbls. flour @ $9.00

8 Bot. of Chicago Flour Co., on acct., 200 bbls. flour @ $7.00

Thompson & Bro. retd. to us 20 bu. grain @ $1.25, part of sale of the 5th inst. and we gave them our check [42] for the same

[41] For additional exercises, see end of Part I.
[42] The student is to regard checks as cash.

9 Paid Chicago Flour Co., on acct., $1,000.00 cash
Sold Arnold & Co., on acct., 50 bbls. flour @ $9.00
10 Recd. credit from Chicago Flour Co. for return to them of 5 bbls. flour @ $7.00
11 Recd. of Bennett & Son, on acct., $150.00
12 Arnold & Co. retd. 10 bbls. flour @ $9.00. Gave them credit for same
13 Recd. of Arnold & Co., on acct., cash $500.00
15 Paid Chicago Flour Co., on acct. cash $500.00
Sold to Brooklyn Trading Co., on acct., 150 bbls. flour @ $9.00
Sold for cash, 30 bbls. flour @ $9.00 and 50 bu. grain @ $1.30

22. DIVISION OF THE MERCHANDISE ACCOUNT

Let us assume that as a result of posting a month's transactions, the Merchandise account, with explanations inserted so as to aid us to understand the various entries, is as follows:

Merchandise

19–					19–				
June	1	Investment	J1	1000 00	June	3	Sales	J2	800 00
	4	Purchases	2	500 00		6	Sales	3	410 00
	6	Purchases	3	1000 00		6	Pur. Ret.	3	40 00
	8	Sales Ret.	5	50 00		8	Pur. Ret.	5	100 00
	15	Purchases	6	2000 00		13	Sales	5	900 00
	18	Sales Ret.	6	80 00		15	Sales	6	750 00
	24	Sales Ret.	9	65 00		17	Sales	6	350 00
	26	Purchases	12	1500 00		19	Pur. Ret.	7	25 00
						25	Sales	11	1200 00
						30	Sales	14	825 00

The explanation space is usually left blank in business. Many bookkeepers utilize it, however, as shown herein.

If we wished to ascertain our profit on merchandise it would be desirable to know the cost of goods sold and the proceeds of sales. To find the cost of goods sold, we require (at least)[43] the value (*a*) of the goods on hand originally and (*b*) of the net purchases. But the amount of net purchases is not very easily ascertainable. In this case it is the sum of $500.00, $1,000.00, $2,000.00, $1,500.00, less the sum of $40.00, $100.00, $25.00, or $4,835.00. The proceeds of sales, the net sales, are similarly obtained. From the total of the sales

[43] The reason for the use of the parenthesis will be made clear in Section 23.

we must deduct the total of the returned sales, that is, from the sum of $800.00, $410.00, $900.00, $750.00, $350.00, $1,200.00, $825.00, we must deduct the sum of $50.00, $80.00, $65.00, obtaining $5,040.00.

It should be clear that in actual practice, where many more items would be found and where the explanation space would probably not be filled in, the task just completed would be a much more complicated one. For this reason, accountants advocate the employment of a number of separate accounts for the complex Merchandise account. The able critic of this account, the late Professor Charles E. Sprague, produced an unanswerable argument in favor of three accounts when he said "an account which has to be made over should have been made right at first." The three accounts are Merchandise Inventory account, Purchases account, and Sales account.[44] If these three had been employed in the example given, we should have had:

Merchandise Inventory

19– June	1		J1	1000 00				

Purchases

19– June	4		J2	500 00	19– June	6	J3	40 00
	6		3	1000 00		8	5	100 00
	15		6	2000 00		19	7	25 00
	26		12	1500 00				

Sales

19– June	8		J5	50 00	June	3	J2	800 00
	18		6	80 00		6	3	410 00
	24		9	65 00		13	5	900 00
						15	6	750 00
						17	6	350 00
						25	11	1200 00
						30	14	825 00

[44] The terms "Mdse. Purchases account" and "Mdse. Sales account" are often used instead of the last two.

Observe how easily the total purchases are obtained from the debit side of Purchases account and the returns from the credit side. The credit side of Sales account supplies the total sales, while the debit side shows the returns. The Inventory account, which shows the value of the merchandise on hand at the beginning of the period, requires no further comment at this point.

We shall close this section by a few typical transactions journalized:

Apr. 1 M. Long began business by investing $1,500.00 and 1,000 bu. wheat valued @ $1.00

5 Sold to F. M. Muller, on acct., 100 bbls. flour @ $8.50

10 Bot. of Brown & Flander, on my 30-day note, 1,000 bu. wheat @ $1.00 and 2,000 bu. corn @ 60c.

14 Marcy & Bro. retd. to us, for cash, part of their purchase of the 10th—3 bbls. flour @ $9.00, and 2 bbls. apples @ $4.00

16 Retd. to T. Towers purchase of yesterday, 20 bbls. apples @ $3.00, receiving credit for same

April 1, 19—

Cash	Investment in	1500 00	
Mdse. Inv.	flour and grain	1000 00	
M. Long, Prop.	business: Cash		2500 00
	$1500. and 1000 bu.		
	wheat at $1.00.		
	5		
F. M. Muller	Sold on acct.	850 00	
Sales	100 bbls. flour $8.50		850 00
	10		
Purchases	Bot. of Brown	2200 00	
Notes Payable	& Flander on		2200 00
	my 30 day note		
	1000 bu. wheat $1.00		
	2000 " corn .60		
	14.		
Sales	Marcy & Bro.	35 00	
Cash	returned part of		35 00
	sale 4/10		
	3 bbls. flour $9.00		
	2 " apples 4.00		
	16		
T. Towers	Returned to him	60 00	
Purchases	purchase of 4/15		60 00
	20 bbls. apples $3.00		

Questions

1. Give the objections to the old form of Merchandise account.

2. What is the function of the Merchandise Inventory account? Of the Purchase account? Of the Sales account?

3. Could you analyze the Merchandise account into purchases, sales, etc., if the explanation space were not employed? Explain fully.

Exercise 22A. Drill

1. Employing Merchandise Purchases account and Merchandise Sales account, orally journalize the transactions of Problem 1, Exercise 17A, page 58.
2. Now orally journalize Problem 1, Exercise 18A, page 60.
3. Also orally journalize Problem 1, Exercise 20A, page 68.
4. The following accounts appear in the Ledger of Hiram Beadle:

Merchandise Purchases

$1,650.00	$50.00
910.00	34.00
2,400.00	
1,000.00	
350.00	

Merchandise Sales

$ 26.00	$410.00
8.50	1,500.00
100.00	490.00
	3,000.00
	460.00
	900.00
	400.00

Discount on Sales

30.00	
4.90	
60.00	

Discount on Purchases

	48.00
	72.00
	30.00

Expense

108.00	5.00
75.00	
6.30	
21.00	

Discount on Notes

10.00	
16.00	
4.50	

a. Analyze each of these accounts stating all you can about each of them.

b. Prepare a Profit and Loss Statement on the basis of these accounts.

Exercise 22B.[45]

Journalize Exercise 21*B*, employing Merchandise Purchases and Merchandise Sales accounts. Post and take a Trial Balance.

[45] For additional exercises, see end of Part I.

23. INVENTORIES

Let us assume that the cost of goods sold, on the basis of the accounts illustrated in the preceding section, was as follows:

Cost of goods on hand at commencement, as per Mdse. Inv. a/c		$1,000.00
Purchases, as per Dr. side of Purchases a/c	$5,000.00	
Less goods returned, as per Cr. side of Purchases a/c	165.00	
Net Purchases		4,835.00
Cost of goods sold		$5,835.00

Is $5,835 the cost of the sales? Undoubtedly so, unless some goods are still unsold. The unsold goods are spoken of as the "inventory of merchandise," or, more briefly, as "the inventory." The inventory is ascertained by obtaining the quantity of goods on hand and valuing them at the cost price, unless the market price is lower, in which case the latter price is employed. If the goods on hand are worth $1,200.00, then the cost of sales was $4,635.00, which fact may be shown in the following form:

Cost of goods on hand at beginning, as per Mdse. Inv. a/c		$1,000.00
Net Purchases, as per Purchases a/c		4,835.00
	Total	5,835.00
Less inventory		1,200.00
Cost of goods sold		$4,635.00

The profit on merchandise is obtained by comparing the cost of sales with the net sales. If the net sales were $5,040.00 then the profit on merchandise would be $5,040.00 less $4,635.00, or $405.00.

Just as we have a merchandise inventory, we may have an expense inventory. For example, if we had spent $210.00 for various items charged to Expense account, it would not necessarily follow that all of the goods charged to Expense account had been consumed. Stationery might still be unused, coal might not yet have been used up, and similarly for other items. If we had $60.00 worth of such items still on hand, the amount would be referred to as the "expense inventory," and the loss for the period due to Expense account would be $210.00 less $60.00, or $150.00.

Let us assume that the Trial Balance resulting from a set of transactions was as follows:

Trial Balance, December 31, 19—

Philip Beever, Prop.		$2,900.00
Cash	$1,800.00	
Mdse. Inv.	1,500.00	
Purchases	9,500.00	
Sales		10,400.00
Notes Receivable	2,000.00	
Notes Payable		1,400.00
F. Brown	560.00	
Th. Faltou	350.00	
Sylvester Sons	590.00	
Macy & Co.		1,000.00
Cooper Sons & Co.		800.00
Expense	200.00	
Discount on Notes	27.00	
Discount on Sales	54.00	
Discount on Purchases		81.00
	$16,581.00	$16,581.00

The inventory of merchandise was $2,100.00, and of expense items $82.00.

We will prepare the Profit and Loss Statement and the Statement of Assets and Liabilities, which, together with the comments following them, should be sufficient to enable the student to prepare such statements by himself.

Statement of Assets
Philip Beever

Assets		
Cash		1800 00
Mdse. Invt. 12/31/–		2100 00
Notes Receivable		2000 00
Accounts Receivable		1500 00
F. Brown	560 00	
Thomas Falton	350 00	
Sylvester Sons	590 00	
Expense Unconsumed		82 00
		7482 00

Profit and Loss Statement of Philip Beever for the period ending Dec. 31, 19–

Merchandise on hand at beginning		1500.00	
Purchases	$9500.00		
Less Inventory 12/31/–	2100.00	7400.00	
Cost of Sales		8900.00	
Proceeds of Sales			10400.00
Profit on Merchandise carried down		1500.00	
		10400.00	10400.00
Profit on Merchandise brought down			1500.00
Discount on Purchases			81.00
Discount on Notes		27.00	
Discount on Sales		54.00	
Expense, Cost	$200.00		
Less Unused	82.00		
Expense loss		118.00	
Net Profit		1382.00	
		1581.00	1581.00

and Liabilities of Dec. 31, 19–

Liabilities		
Notes Payable		1400.00
Accounts Payable		1800.00
Macy & Co.	1000.00	
Cooper Sons & Co.	800.00	
Total Liabilities		3200.00
Capital		
Philip Beever		
Net Investment	2900.00	
Net Profit	1382.00	
Net Capital		4282.00
		7482.00

Comments

1. Balances and horizontal lines, as previously explained, are often written in red.
2. " Purchases—$9,500.00 "—represents the net purchases, that is, the difference between the total purchases and the total returned purchases.
3. " Proceeds of sales—$10,400.00 "—represents net sales as per Sales account.
4. The arrangement of the Statement of Assets and Liabilities differs somewhat from those presented previously, but it is readily understood. Note that the total assets ($7,482.00) equal the sum of the total liabilities (3,200.00) and the net capital ($4,282.00).
5. On the basis of the Trial Balance, and on the basis of the Profit and Loss Statement and the Statement of Assets and Liabilities prepared from it carefully test the correctness of the following generalizations, and when you have proved them, you are advised to master them:

Observations

a. Every Trial Balance account which has a debit balance represents either an asset or a loss. If the balance denotes something of value belong to the business (cash or convertible into cash, that is, " cashable ") it is an asset; otherwise it is a loss.

b. Every Trial Balance account which has a credit balance represents either a liability[46] or a profit. If the business is to pay or liquidate it, it represents a liability; otherwise it is a profit.

c. Every Trial Balance account appears in either the Statement of Assets and Liabilities or in the Profit and Loss Statement, but not in both statements.

d. Inventory items appear in both the Statement of Assets and Liabilities and in the Profit and Loss Statement.

[46] The proprietor's balance is often referred to as a p p iet y liability. It is best to regard it as a special item, and so it is not included in this summary. Recall that, in Section 4, the proprietor's investment was regarded as a claim against the business, so that from this point of view it is easily treated as a special liability account.

Questions

1. What are the inventories and why are they taken?
2. How does the merchandise inventory affect (*a*) the Profit and Loss Statement, (*b*) the Statement of Assets and Liabilities?
3. Try to explain why inventory items should appear in both statements.
4. How is an inventory taken? Explain fully.

Exercise 23A. Drill

1. Find net profit or net loss: Sales $2,400.00, returned sales $160.00; purchases $3,700.00; expenses $185.00; discount on sales, $32.00; discount on purchases $68.00; discount on notes $45.00; inventory of unused merchandise $1,850.00; unconsumed expense items $18.00.

2. Find the net loss:

Merchandise Inventory

1,250.00	

Merchandise Purchases

1,000.00	150.00
800.00	80.00
2,700.00	
4,000.00	

Merchandise Sales

25.00	500.00
60.00	1,200.00
8.00	800.00
	2,100.00
	700.00

Expense

75.00	3.00
12.00	
101.00	
5.00	
21.00	

Discount on Purchases

	20.00
	24.00
	54.00

Discount on Sales

24.00	
42.00	

Discount on Notes

8.00	
20.00	

Inventories at end of year: Merchandise, $4,050.00; Expense $35.00.

3. Assuming that unsold merchandise is worth $560.00, and unconsumed expense items $40.00, prepare a Profit and Loss Statement for Hiram Beadle. (Problem 4, Exercise 22*A*, page 76.)

4. Now prepare a Statement of Assets and Liabilities. The other accounts are:

Hiram Beadle, Prop., $3,860.00 (invested $4,000.00 and withdrew $140.00); Cash, $3,100.00; Notes Receivable, $1,000.00; Accounts Receivable, $2,600.00 (L. Jones, $1,000.00; M. R. Longley, $250.00; Freeman Bros., $800.00; Brooklyn Trading Co., $550.00); Notes Payable, $1,500.00; Accounts Payable, $721.20 (Seabury & Co., $500.00; Marvin & Finke, $221.20).

5. On the basis of Problem 3, Exercise 14*A*, page 50, prepare a Statement of Assets and Liabilities, and a Profit and Loss Statement. Unsold Merchandise is worth $850.00 and unconsumed expense items $15.00. Assume that the debit side of the Merchandise account represents purchases and the credit side sales.

6. Prepare a Profit and Loss Statement and a Statement of Assets and Liabilities for Problem 1, Exercise 14*A*, page 49. The debit side of Merchandise account represents an original inventory of $800.00, purchases of $5,150.00 and returned sales of $250.00; the credit side sales of $6,675.00 and returned puchases of $85.00. Inventory of unsold Merchandise is $336.00, and of unconsumed expense items, $108.00.

Exercise 23B

Prepare a Profit and Loss Statement and a Statement of Assets and Liabilities for Exercise 22*B*. The merchandise on hand is worth $600.00 and the value of the unconsumed expense items is $35.00.

24. CLOSING THE BOOKS

Annually, sometimes semiannually, sometimes even oftener, business men wish to determine the progress and the condition of their affairs. We have already learned how to prepare statements for this purpose. It is customary to incorporate in the Ledger the facts shown by the two statements. For example, the proprietor's account in the Ledger shows his net investment, whereas the Statement of Assets and Liabilities gives his present worth or net capital. The object of "closing the books" is to adjust the proprietor's account, as well as the other accounts.

Though the custom of formally closing books is now no longer universal, the great majority of business concerns still continue the prac-

tice. We shall not present the process as most bookkeepers employ it,[47] for accountants strongly condemn their methods. The professional accountant follows the procedure outlined in the section dealing with advanced accounting and modern bookkeepers follow the example set by these accountants. We shall present the general principles employed.

Balancing Accounts.—In order to take a Trial Balance, we must first obtain the balance of the accounts. When the books are closed, it is sometimes desired to show the balances in a permanent form. Our illustrations will be confined to the following three accounts:

Cash

19— June	1		J1	2800	00	19— June	1		J1	75	00
	5		3	500	00		5		3	26	75
	12		6	200	00		7		5	4	30
	20		9	180	00		14		7	100	00
	28		13	400	00		21		10	1000	00
							24		12	830	00

F. L. Brown & Sons

19— June	15		J8	1200	00	19— June	20		J9	500	00
	28		13	1000	00		25		12	200	00
							27		13	300	00
							30		14	400	00

Notes Payable

19— June	15		J8	2000	00	19— June	1		J1	1000	00
	30		14	800	00		5		3	2000	00
							8		5	750	00
							20		9	800	00

[47] Instead of employing Journal entries for transfers, a red ink entry is made in the account to be transferred and the item is written in black ink in the second account. See any elementary text. This is also called the "red-ink" method.

The steps in balancing an account are as follows:

Cash

19—					19—				
June	1		J1	2800 00	June	1		J1	75 00
	5	4080.00	3	500 00		5		3	26 75
	12	2036.05	6	200 00		7		5	4 30
	20	2043.95	9	180 00		14		7	100 00
	28		13	400 00		21		10	1000 00
				4080 00		24		12	830 00
									2036 05

1. Foot up both sides of the account, using a sharp, hard pencil, making small figures as close to the last item on each side as possible.

2. Compute the balance, in pencil, on the larger side.

3. Write the balance, $2043.95, in red ink, on the *smaller* side and on the first blank line. As the account is supposed to be balanced on the last day of the month, "30" is inserted, because the date of the last preceding entry was the 24th. The addition to the smaller side is known as the Austrian method of subtraction. It is employed by us constantly in making change. For example, if we buy something for eleven cents and offer a quarter in payment, instead of saying "eleven from twenty-five is fourteen," the seller says "eleven plus four (pennies) fifteen, plus ten (a dime), twenty-five."

Cash

19—					19—				
June	1		J1	2800 00	June	1		J1	75 00
	5		3	500 00		5		3	26 75
	12	4080.00	6	200 00		7		5	4 30
	20	2036.05	9	180 00		14		7	100 00
	28	2043.95	13	400 00		21		10	1000 00
				4080 00		24		12	830 00
									2036 05

4. Now place your ruler immediately beneath $2,043.95, and rule a red ink line in the money column of the credit side. Without shift-

ing the ruler, draw a similar line in the money column on the debit side. These lines are known as addition lines.

Cash

19—						19—					
June	1		J1	2800	00	June	1		J1	75	00
	5	4080.00	3	500	00		5		3	26	75
	12	2036.05	6	200	00		7		5	4	30
	20	2043.95	9	180	00		14		7	100	00
	28		13	400	00		21		10	1000	00
				4080	00		24		12	830	00
										2036	05

5. Foot up both money columns, and write the total, $4,080.00, in black ink, on the first blank line following the red addition lines. Write figures of ordinary size.

Cash

19—						19—					
June	1		J1	2800	00	June	1		J1	75	00
	5	4080.05	3	500	00		5		3	26	75
	12	2036.05	6	200	00		7		5	4	30
	20	2043.95	9	180	00		14		7	100	00
	28		13	400	00		21		10	1000	00
				4080	00		24		12	830	00
				4080	00					4080	00

6. It is now clear that the addition of $2,043.95 to the credit side has made the total of that column equal to the total of the debit column. The sign of equality is " =." Draw double lines (long "equal" lines) in red ink, all across the page, except across the explanation space, close to the total $4,080.00, to indicate the equality of the sides. The Cash account is now said to be "closed."

7. The object of closing the Cash account was to place the balance on permanent record and to have it stand out clearly. But as the business is to be continued, the fact that a balance of $2,043.95 is on hand is important. It constitutes the starting point for cash for the

next period. This fact is expressed by bringing the balance down, in black ink, under date of July 1, on the opposite side. Note carefully that the July 1 entry clearly expresses the fact that the cash then on hand amounts to $2,043.95. This balance is called a debit balance, despite the fact that it first appeared on the credit side in red ink. Indeed, some assert that a red ink balance denotes that the balance in question really belongs to the opposite side.

Cash

Date			Fol.	Amount	Date			Fol.	Amount
19– June	1	4080.00 / 2036.05 / 2043.95	J1	2800.00	19– June	1		J1	75.00
	5		3	500.00		5		3	26.75
	12		6	200.00		7		5	4.30
	20		9	180.00		14		7	100.00
	28		13	400.00		21		10	1000.00
				4080.00		24		12	830.00
				4080.00					4080.00
19– July	1	Balance		2043.95					

Carefully trace the seven steps which resulted in each of the two exhibits following:

F. L. Brown & Sons

Date			Fol.	Amount	Date			Fol.	Amount
19– June	15	2200.00 / 1400.00 / 800.00	J8	1200.00	19– June	20		J9	500.00
	28		13	1000.00		25		12	200.00
				2200.00		27		13	300.00
						30		14	400.00
									1400.00
				2200.00					2200.00
19 July	1	Balance		800.00					

Notes Payable

Date			Fol.	Amount	Date			Fol.	Amount
19– June	15		J8	2000.00	19– June	1	4550 / 2800 / 1750	J1	1000.00
	30		14	800.00		5		3	2000.00
				2800.00		8		5	750.00
						20		9	800.00
									4550.00
				4550.00					4550.00
					19– July	1	Balance		1750.00

There is a marked tendency discernible among the larger business houses to dispose with the formal closing illustrated above. Balances must be obtained, however, and so the process stops when the second step in the series has been completed. In addition, the balance is frequently written on the *larger* side, in pencil, alongside of the last item on that side, in the explanation space. For example, Brown & Sons' account would appear as follows:

F. L. Brown & Sons

Date		Explanation	Folio	Amount	Date		Explanation	Folio	Amount
19— June	15		J8	1200.00	19— June	20		J9	500.00
	28	800-	13	1000.00		25		12	200.00
						27		13	300.00
						30		14	400.00

The entries of the following months are then continued without interruption.

Closing Closed Accounts.—Accounts, especially personal accounts, are frequently settled. Thus, if a customer of ours paid his indebtedness in full, or if we paid our creditors in full, the respective accounts would be balanced or closed. We shall present three such accounts without comment. The student should remember, of course, that, when formal closing is not employed, these accounts would have remained untouched.

Robert Browning

Date		Explanation	Folio	Amount	Date		Explanation	Folio	Amount
19— June	5		J8	320.00	19— June	15		J9	320.00

Smalley & Thomas

Date		Explanation	Folio	Amount	Date		Explanation	Folio	Amount
19— June	3		J2	1000.00	19— June	17		J6	500.00
								14	200.00
								18	300.00
				1000.00					1.000.00

Lake & Kahn

Date		Item	F.	Amount	Date		Item	F.	Amount
19– June	16		J 8	400.00	19– June	1		J 1	1000.00
	30		14	400.00					
July	10		18	100.00					
	20		21	100.00					
				1000.00					1000.00

Closing the Books.—The phrase, "closing the books," is most frequently applied to that process, usually at the end of annual periods, whereby the progress and condition of the business is incorporated in the books. It consists, essentially, of transferring the profit or the loss shown by various individual accounts to a summary Profit and Loss account, and the transferring from this latter account to the proprietary account or accounts. In elementary bookkeeping this summary account is usually called Loss and Gain account.

We shall illustrate the transferring operation at once:

1. To transfer the loss of $320.00 shown by the Expense account:

Expense

Date		Item	F.	Amount	Date		Item	F.	Amount
19– Jan	3		J 2	150.00					
	5		4	80.00					
	28		18	90.00					

If we wish to transfer the amount or balance ($320.00 less $0.00, $320.00) to the Loss and Gain account, we must close the Expense account. To do so, we must credit it for $320.00. As the Loss and Gain account shows the losses on the debit side and the gains or profits on the credit side, the Loss and Gain account must be debited for the same amount. This debiting and crediting is accomplished by means of a Journal entry, suitably explained. The present one follows:

January 31, 19—

Loss & Gain	To transfer the loss shown by	$320.00	
Expense	Expense a/c to L. & G. a/c, and to close the former acct.		$320.00

After posting, we have:

Expense

19—					19—				
Jan	3		J2	150 00	Jan	31		J19	320 00
	5		4	80 00					
	28		18	90 00					
				320 00					320 00

Loss & Gain

19—									
Jan.	31		J19	320 00					

Discount on Purchases

					19—				
					Jan.	6		J4	7 25
						18		10	4 55

This account may be closed by debiting it for **$11.80**. At the same time Loss and Gain account must be credited for two reasons: because debits and credits must equal each other, and because profits are entered upon the credit side of the summary account. This Journal entry is:

	January 31, 19—		
Discount on Purchases	To transfer the profit shown by Dis. on Pur. a/c to the L. & G. a/c and to close the former acct.	$11.80	
Loss & Gain			$11.80

When this posting has been completed, we have:

Discount on Purchases

Date		Explanation	Fol.	Amount		Date		Explanation	Fol.	Amount	
19— Jan.	31		J 19	11	80	19— Jan.	6		J 4	7	25
							18		10	4	55
				11	80					11	80

Loss & Gain

Date		Explanation	Fol.	Amount		Date		Explanation	Fol.	Amount	
19— Jan.	31	Expense	J 19	320	00	19— Jan.	31	Dis. on Pur.	J 19	11	80

After all accounts which show profits or losses have been closed "into Loss and Gain," the latter account might appear as follows:

Loss & Gain

Date		Explanation	Fol.	Amount		Date		Explanation	Fol.	Amount	
19— Jan	31	Expense	J 19	320	00	19— Jan	31	Dis. on Pur.	J 19	11	80
		Discount	19	24	00			Mdse.	19	600	00
		Dis. on Sales	19	31	00						

The explanation space is frequently employed when posting to the Loss and Gain account. Note that a profit of $600.00 has been transferred from Merchandise account, so that it may be assumed that the division advocated in Section 22, has not been used. The total profits amount to $611.80 and the total losses to $375.00, therefore the net profit is $236.80. This is to be transferred to the account of the proprietor, L. C. Buckley. The following Journal entry accomplishes the purpose:

January 31, 19—

Loss & Gain	To transfer the net profit shown by	$236.80	
L. C. Buckley,	L. & G. a/c to the Proprietor's		$236.80
Prop.	a/c, and to close the former acct.		

If we assume that Mr. Buckley's original investment was **$2,000.00**, while his withdrawals were **$25.00** and **$40.00**, respectively, upon posting we have:

Loss & Gain

19– Jan	31	Expense	J19	320.00	19– Jan	31	Dis. on Pur.	J19	11.80
		Discount	19	24.00			Mdse	19	600.00
		Dis. on Sales	19	31.00					
		Net Profit, Prop.	20	236.80					
				611.80					611.80

L. C. Buckley, Prop.

19– Jan	5		J4	25.00	19– Jan	1		J1	2000.00
	12		7	40.00		31	Loss & Gain, net Profit	20	236.80

Mr. Buckley's account shows that his net capital is **$2,171.80**. We now balance his account, just as we balanced the Cash account, but call the balance "net capital." Having done so, we have:

L. C. Buckley, Prop.

19– Jan	5		J4	25.00	19– Jan	1		J1	2000.00
	12		7	40.00		31	Loss & Gain, net Profit	20	236.80
				2236.80					2236.80
					19– Feb	1	Net Capital		2171.80

Not much remains of the present topic. We shall conclude by showing how inventories are treated and how to close the Merchandise Inventory, Purchases, and Sales accounts.

If $50.00 represented the balance of unconsumed expense items, then $270.00, instead of $320.00 (see account, page 88), should have been transferred to Loss and Gain account. The inventory should have been entered in such a way as to cause the transfer of the proper amount and still show that we had on hand unconsumed expense items valued at $50.00. The modern methods of the accountant are fully described in books on accounting. Here we shall present the device, very briefly, but sufficient for the purposes of the beginner:

(*a*) First a Journal entry to take care of the inventory:

	Date		
Exp. Inventory	To enter expense inventory on books	$50.00	
Expense			$50.00

(*b*) After posting the above entry, we make another:

	Date		
Loss & Gain	To transfer loss shown by Expense	$270.00	
Expense	a/c to L. & G. a/c and to close		$270.00
	the former acct.		

After posting both entries, the Expense account will be closed; the Loss and Gain account will appear, as before, as a new account; Expense Inventory account will be debited for $50.00, representing an asset. The Expense and Expense Inventory accounts appear as follows:

Expense

19—					19—				
Jan	3		J2	150.00	Jan	31	Expense Invty	J19	50.00
	5		4	80.00		31	Loss & Gain	19	270.00
	28		18	90.00					
				320.00					320.00

Expense Inventory

19—									
Jan	31		J19	50.00					

A simpler method, sometimes employed, is as follows:

(*a*) A Journal entry to transfer from the Expense account to the Loss & Gain account the actual loss resulting from expense:

	January 31, 19—		
Loss & Gain	To transfer loss from the	$270.00	
Expense	Expense a/c to the L. & G. a/c		$270.00

(*b*) The balance of the Expense account now represents the value of the unconsumed expense items. The account may now be balanced or closed, as follows:

Expense

19— Jan.	3		J 2	150.00	19— Jan.	31	Loss & Gain	J 19	270.00
	5		4	80.00					
	28		18	90.00					
				320.00					320.00
19— Feb.	1	Balance (Invty)		50.00					

For the present, the student is advised to employ the first method shown, that is, to use an Expense Inventory account.

The final proposition will deal with the closing of the following accounts:

Mdse. Inventory

19— Jan.	1		J 1	1000.00					

Purchases

19— Jan.	4		J 2	1500.00	19— Jan.	10		J 5	12.00
	12		6	1000.00		21		8	23.00
	28		11	500.00					

Sales

19–					19–				
Jan.	11		J5	31 00	Jan.	5		J2	1200 00
	16		8	19 00		12		6	1000 00
						19		7	500 00
						24		10	800 00

The merchandise now on hand (*final* inventory) may be taken to be worth $1,200.00. The net purchases amount to $2,965.00 ($3,000.00 less $35.00); the net sales, $3,450.00 ($3,500.00 less $50.00). The student will recall that the goods on hand at the beginning of the period are added to the net purchases as the first step in ascertaining the profit by means of the Profit and Loss Statement. Something similar is accomplished by the following Journal entry:

	Date		
Purchases	To transfer old inventory to Purchases a/c, and to close Mdse. Inv. a/c	$1,000.00	
Mdse. Inventory			$1,000.00

From the purchases so increased, we must deduct the value of the present inventory. The following entry does so, and at the same time places this new inventory on the books by charging the Merchandise Inventory account:

	Date		
Mdse. Inventory	To enter present inventory and to establish the cost of sales	$1,200.00	
Purchases			$1,200.00

The Purchases account will now show the cost of goods sold. In order to compare this cost with the sales, the former may be transferred to the latter:

	Date		
Sales	To transfer cost of sales to Sales a/c and to close Purchases a/c	$2,765.00	
Purchases			$2,765.00

The balance of the Sales account now shows the profit on merchandise. It must be referred to the Loss and Gain account:

	Date		
Sales	Profit on sales transferred to L. & G. a/c and to close Sales a/c	$685.00	
Loss & Gain			$685.00

The accounts affected by the above Journal entries, after posting, appear thus:

Mdse. Inventory

19–					19–				
Jan.	1		J 1	1000 00	Jan.	31	Purch. a/c	J 15	1000 00
Jan.	31		J 15	1200 00					

Purchases

19–					19–				
Jan.	4		J 2	1500 00	Jan.	10		J 5	12 00
	12		6	1000 00		21		8	23 00
	28		11	500 00		31	Mdse. Invty. a/c (new)	15	1200 00
	31	Mdse. Invty. a/c (old)	15	1000 00		31	Sales a/c	15	2765 00
				4000 00					4000 00

Sales

19–					19–				
Jan.	11		J 5	31 00	Jan.	5		J 2	1200 00
	16		8	19 00		12		6	1000 00
	31	Purch. a/c	15	2765 00		19		7	500 00
	31	L & G. a/c	15	685 00		24		10	800 00
				3500 00					3500 00

Loss & Gain

					19–				
					Jan.	31	Sales a/c	J 15	685 00

Questions

1. A Statement of Profit and Loss, prepared on the basis of the foregoing accounts, would result in a profit on sales exactly equal to that shown by the Loss and Gain Account. Explain the equality.

2. Differentiate between a Loss and Gain account and a Statement of Profit and Loss.

3. Why and when should accounts be closed?
4. State what procedure is necessary to record the existence of inventories.
5. Why is it unnecessary formally to close personal accounts?

Exercise 24A. Drill

1. Copy the following accounts on Ledger sheets and rule them off or close them:

F. L. Lane, 360 B'way, N. Y. City

19—						19—						
Apr.	6	J	15	824	32	May	2	J	18	500	00
May	19		21	730	00	June	3		27	500	00
						July	1		31	554	32

Notes Payable

19—						19—					
Apr.	4	J	18	1,000	00	Feb.	3	J	6	1,000	00
	18		20	1,200	00		18		9	1,200	00
July	6		31	900	00	Mar.	6		13	900	00
Oct.	15		48	5,000	00	Sept.	15		42	5,000	00
Dec.	31		62	2,000	00	Oct.	31		50	2,000	00

2. Copy the following accounts on Ledger sheets and balance them:

Cash

19—						19—					
Apr.	1	J	15	1,000	00	Apr.	1	C	5	700	00
	18	C.B.	4	1,408	75		15		5	250	00
May	3		6	538	50		19		5	437	50
	19		6	226	37	May	15		7	250	00
Oct.	22		6	2,666	67		15		9	1,275	00
Nov.	1		10	13	50	July	15		9	500	00
	15		10	1,527	50		18		11	33	35
Dec.	28		12	1,789	54		27		11	140	00
						Oct.	15		11	750	00
							30		13	865	00
							30		13	1,500	00
						Dec.	15		13	125	00
							15		13	375	00
							23		13	63	80

Henry L. Mayer

19—						19—					
Mar.	3		13	538	50	May	3		6	538	50
Sept.	16		25	785	67	Oct.	24		8	2,666	67
	29		27	1,881	00	Nov.	15		10	1,527	50
Oct.	14		30	1,527	50						
Nov.	17		34	1,785	50						

Cyrus Field

19—						19—					
May	15		9	1,275	00	Feb.	13		16	900	00
Sept.	21		2	27	50		27		17	375	00
Oct.	15		13	1,500	00	Aug.	28		19	936	30
Dec.	23		13	63	80	Aug.	12		19	655	00
						Nov.	18		22	427	75
						Dec.	15		24	1,100	00

3. Copy the following accounts on Ledger sheets and close the books by means of Journal entries:

Maxwell Reid, Proprietor

19—						19—					
Apr.	3	J	2	35	00	Apr.	1	J	1	2,500	00
July	27		11	140	00						

Merchandise Purchases

19—						19—					
Feb.	28	J	17	4,408	70	Sept.	30	J	2	227	50
Aug.	31		19	7,645	63	Nov.	30		5	145	00
Nov.	30		22	13,480	89						
Dec.	31		24	8,510	25						

Merchandise Sales

19—						19—					
Oct.	31		4	62	50	May	31		13	5,605	75
						Sept.	30		27	10,100	50
						Oct.	31		30	15,125	00
						Nov.	30		34	11,950	25

Expense

19—											
Apr.	1	C	5	700	00						
	15		5	250	00						
May	15		7	250	00						
July	15		9	500	00						
	18		9	33	35						
Oct.	15		11	750	00						
Dec.	15		13	375	00						
	15		13	125	00						

(Inventories: Mdse. $1,000.00; Expense $120.00.)

4. Copy the following accounts on Ledger sheets.

Frank R. Crane, Capital

19—	19—
Dec. 31 $120.00	Dec. 31 $4,000.00

Cash

19—	19—
Dec. 31 $13,600.00	Dec. 31 $10,229.50

Merchandise Inventory

19—	
Dec. 1 $800.00	

Merchandise Purchases

19—	19—
Dec. 1 $5,150.00	Dec. 30 $85.00

Merchandise Sales

19—	19—
Dec. 28 $250.00	Dec. 1 $6,675.00

Expense

19—	19—
Dec. 27 $675.00	Dec. 28 12.00

Thomas Browne

19—	19—
Dec. 10 $2,500.00	Dec. 20 $1,000.00

Rawlins & Sons

19—	19—
Dec. 11 $800.00	Dec. 23 $800.00

Smith & Foley

19—	
Dec. 9 $1,400.00	

Lane & Court

19—	19—
Dec. 12 $920.00	Dec. 19 $350.00

Smith & Smith

19—	19—
Dec. 7 $1,040.00	Dec. 15 $800.00

Notes Receivable

19—	19—
Dec. 15 $3,000.00	Dec. 26 $1,200.00

James Talcott

19—	19—
Dec. 24 $2,650.00	Dec. 11 $5,500.00

Smiley & Co.

19—	19—
Dec. 27 $1,300.00	Dec. 20 $2,000.00

Babcock & Co.

	19—
	Dec. 15 $700.00

Baff & Tramm

19—	19—
Dec. 28 $250.00	Dec. 20 $250.00

Notes Payable

19—	19—
Dec. 29 $1,700.00	Dec. 19 $2,700.00

Discount on Sales

19—	
Dec. 30 $125.25	

Discount on Notes

19—	19—
Dec. 30 $27.00	Dec. 29 $5.75

5. Prepare a Trial Balance for Problem 4, above.

6. Prepare (*a*) a Profit and Loss Statement and (*b*) a Statement of Assets and Liabilities. Mdse. Inventory Dec. 31, 19—, $336.00, Expense inventory $108.00.

7. Show the Journal entries necessary to close the books.
8. Post the Journal entries.
9. Close the books.

Exercise 24B

Close the books employed to write up the transactions of Exercise 22*B*.

25. MISCELLANEOUS ACCOUNTS

Enough has been presented to enable the student to keep a set of elementary double entry books. Before proceeding to a more advanced phase of the subject, a few additional accounts and topics will be presented.

Furniture and Fixtures Account.—If the Student were asked to enter the cash purchase of a safe for office use, he might journalize the transaction thus:

Expense	Bot. of Mosler Safe Co.	$100.00	
Cash	1 safe for office		$100.00

It is desirable to exclude from the Expense account such articles as safes, desks, chairs, filing cabinets, etc., which are charged to Furniture and Fixtures account. The foregoing purchase should accordingly be charged to Office Furniture account or to Furniture and Fixtures account:

Furniture & Fixtures	Bot. of Mosler Safe Co.	$100.00	
Cash	1 safe for office		$100.00

At the end of a given period, the value of the furniture will be less than shown by the Furniture and Fixtures account. This lower value may be considered as the inventory value.

The Furniture and Fixtures item, in the Statement of Assets and Liabilities, should be shown at its inventory value. The difference between this inventory value and its cost represents a loss due to " depreciation." [48] This depreciation is shown among the losses in the Profit and Loss Statement.

[48] For a fuller discussion of depreciation, see pages 328 and 329.

To illustrate:

(*a*) In the Statement of Assets and Liabilities:

Notes Receivable		8,500	00		
Furniture and Fixtures		738	00		
Expense Inventory		175	00		

or,

Notes Receivable		8,500	00		
Furniture and Fixtures	$820.00				
Less depreciation, 10%	82.00	738	00		

(*b*) In the Profit and Loss Statement:

Profit on Merchandise, brought down			2,300	00
Discount on Purchases			96	00
Furniture and Fixtures Depreciation	82	00		

Other Expense Accounts.—Discount on Notes account, and Discount on Sales account may be regarded as subdivisions of the Expense account. If the number of transactions warrant it, the Expense account is further subdivided. The following titles are self-explanatory: Freight account, Advertising account, Salary account, Rent account, Insurance account, Tax account, and others. Further information regarding this subject will be found in more advanced phases of our study.

Sight Drafts.—Business men sometimes employ what are known as sight drafts for the purpose of effecting collections. These instruments are infrequently used in ordinary transactions, but are rather restricted to the collection of past-due accounts. Illustrations and descriptions of sight drafts will be found on pages 399–401 of this book.

If Smith & Jones, who owe us $300.00, failed to pay their account when due, and if we draw a sight draft on them, no entry need be made at the time when the draft is drawn, because the drawing of such a draft is really equivalent to a formal demand that payment be made at once. However, when the bank, the agent to whom the task of collection is usually, though by no means always, intrusted, returns

to us, say $298.00, as the proceeds of the draft, retaining $2.00 for the services involved, an entry of the following form is in order:

Cash	$298.00	
Collection & Exchange	2.00	
Smith & Jones		$300.00

Sight drafts are sometimes drawn on us. Assume that Bailey & Co. had their bank present a sight draft against us for $500.00, which we paid. The entry therefor would be equivalent to the payment of an ordinary debt, i.e., Bailey & Co.'s account would be charged or debited, and Cash account would be credited, in each case, for $500.00.

Shipments and Consignments.—Manufacturers and dealers sometimes send goods to their customers "on consignment." This is practically equivalent to a memorandum sale, i.e., the goods may be returned if unsold or if for any reason they prove unsatisfactory. In other cases, the manufacturer or dealer may send goods to his customers to be sold on a commission basis. The situations resulting from such procedure are varied. We shall consider the simplest one.

Let us assume that we have received twelve dozen pairs of gloves from the Gloucester Glove Co. to be sold for their "account and risk." The transactions involved were as follows:

(*a*) The goods were received on September 1, 19——, at which time we paid express charges amounting to $1.25.

(*b*) On September 18, we disposed of eight dozen pairs of gloves at $9.00 per dozen.

(*c*) The balance of the gloves were disposed of on September 22, at $9.00 per dozen.

(*d*) On September 23, we sent the Gloucester Glove Co. our check for $95.95, which amount was arrived at as follows:

12 dozen at $9.00		$108.00
Less		
Expressage	$1.25	
Commission	10.80	
Total deductions		12.05
Balance remitted		$95.95

The entries corresponding to the foregoing transactions are as follows:

(*a'*) Gloucester Glove Co. Consignment Inward No. 1	$1.25	
Cash		$1.25
Paid freight on a consignment of twelve dozen pairs of gloves from Gloucester Glove Co.		

The student is to observe that instead of debiting the Gloucester Glove Co., the charge is made to "Gloucester Glove Co. *Consignment Inward No. 1.*" "Consignment Inward No. 1" is added so as to distinguish this account from an ordinary personal account, for it is obvious that a consignment transaction of this kind differs from an ordinary purchase or sale transaction.

(*b'*) Cash (or customer's account)	$72.00	
Gloucester Glove Co. Consignment Inward No.1		$72.00
Sold eight doz. pr. gloves at $9.00 per dozen, from Gloucester Glove Co.'s consignment, ——— (on account, or for cash, as the case may be).		

The student should note that instead of crediting sales account, the proceeds of the sale are credited to the Gloucester Consignment account.

(*c'*) Cash (or customer's account)	$36.00	
Gloucester Glove Co. Consignment Inward No. 1		$36.00
Sold four doz. pr. gloves @ $9.00 per dozen, from Gloucester Glove Co.'s consignment, ——— (on account, or for cash, as the case may be).		
(*d'*) Gloucester Glove Co. Consignment Inward No. 1	$10.80	
Commission		$10.80
10% of amount of gross sales, as per agreement.		

It is assumed that we were allowed 10% commission for the service of selling, together with the reimbursement to us for any expenses other than for freight, which we may have incurred during the time that the goods were in our possession. The credit to the Commission account, a profit and loss account, records an earning by us.

(*d''*) Gloucester Glove Co. Consignment Inward No. 1	$95.95	
Cash		$95.95
Net proceeds remitted by check.		

Accountants prefer that before making the remittance of the net proceeds, in such cases as under present discussion, the consignment account be transferred to the personal account of the shipper or

consignor. When this is done, the entry consists of debiting the shipper and crediting the consignment account, and then the entry for the remittance consists of a credit to cash and a charge to the personal account of the shipper. Though this procedure has undoubted merit, it is well enough for the student's present purposes to employ the methods outlined above.

When the check for the net proceeds is sent, it is usual to forward with it a so-called "Account Sales," showing the original owner of the goods how the amount of the net proceeds was arrived at. The following illustration will prove self-explanatory:

New York, September 23, 19——

Account Sales of Twelve Dozen Pairs of Gloves
Sold for the account and risk of *Gloucester Glove Co.*
Gloucester, Mass.

THOMAS STONE
Dry Goods Dealer
100 Water Street

Sept.	18	8 doz. pairs gloves $9.00	72	00		
	22	4 doz. pairs gloves 9.00	36	00	108	00
		CHARGES:				
	1	Expressage	1	25		
	22	Commission, 10%	10	80	12	05
		Net proceeds, herewith......	....	..	95	95

As a concluding topic, let us consider the situation which results when we ship or consign goods to another firm to be sold by them for us. Just as in the first case, let us assume that we are keeping the books for Mr. Thomas Stone, and that in this case the goods are consigned to Brown Bros. of Washington, D. C. The transactions, in so far as we are concerned, are as follows:

(*a*) October 3, 19—, we shipped to Brown Bros. 30 suits which had cost us $13.00 each. We prepaid freight charges amounting to $2.40.

(*b*) On November 8, we received Brown Bros.' check for $471.43, together with the following Account Sales:

Washington, D. C., November 7, 19—

Sold for Account and Risk of Thomas Stone
100 Water Street, New York City
By
Brown Brothers
Commission Merchants
1000 Pennsylvania Avenue

Oct.	21	20 suits	$16.50	330	00		
	27	6 suits	16.00	96	00		
Nov.	2	4 suits	17.00	68	00	494	00
		Charges:					
Oct.	6	Drayage		2	50		
Nov.	1	Advertising in Washington Ledger (3 inserts)		3	75		
	1	Insurance		1	50		
	7	Commission, 3%		14	82	22	57
		Net proceeds, as per check inclosed				471	43

The entries in our books are as follows:

(*a*′) Brown Bros. Consignment Outward No. 1	$390.00	
Purchases		$390.00

Consigned 30 suits costing us $13.00 each to Brown Bros. to be sold for our account and risk.

The student should observe how a consignment received by us (inward) is distinguished from goods that we consign to be sold for us (outward). The numeral attached serves to distinguish different shipments made to the same concern. Instead of crediting Sales account, note that Purchases account is credited. This is for the purpose of reducing the Purchases account, which ordinarily shows the goods which we purchase for use or sale by us. The account with Brown Bros., Consignment Outward No. 1, may be regarded, in this case, as a special Merchandise Purchases account. It must be clear to the student that a credit to Sales account would be wrong, though some bookkeepers do credit "Consignment Sales account" or "Shipment Sales account" instead of "Purchases account."

(*a''*)	Brown Bros. Consignment Outward No. 1	$2.40	
	Cash		$2.40
	Prepaid freight on shipment to Brown Bros.		

Instead of charging Freight or Expense account for the disbursement, observe that it is charged to the Consignment account which, at this time, shows a total cost to us, as follows:

Brown Bros. Consignment Outward No 1

$390.00	
2.40	

(*b*) When the remittance is received from Brown Bros., the following entry suffices:

Cash	$471.43	
Brown Bros. Consignment Outward No. 1		$471.43
Received Brown Bros.' check for net proceeds of shipment, as per their Account Sales dated November 7, 19—.		

The account with Brown Bros. would now appear as follows:

Brown Bros. Consignment Outward No 1

$390.00	$471.43
2.40	

A profit of $79.03 is indicated by the above account. This profit may be left in the account until the end of the year, at which time it is transferred to the Profit and Loss account. If, however, transactions of this kind occur frequently, the profit on each separate transaction may be transferred, as soon as the transaction is closed, to a Consignment Outward account. This is accomplished by means of a simple Journal entry:

Brown Bros. Consignment Outward No. 1	$79.03	
Consignments		$79.03
To transfer net profit on first consignment to Brown Bros. to the Consignment account.		

Questions

1. What is double entry bookkeeping?
2. Why are books kept?
3. What function does each of the following serve:
   (*a*) journalizing; (*b*) posting; (*c*) Ledger; (*d*) Trial Balance; (*e*) Statement of Profit and Loss; (*f*) Statement of Assets and Liabilities; (*g*) an account; (*h*) closing the books; (*i*) Loss and Gain account?
4. Differentiate between consignment inward and consignment outward.
5. What is meant by an Account Sales?
6. State the uses of a sight draft.
7. How are sight drafts considered by the drawee, that is, by the person on whom the draft is drawn and who pays it?
8. How are sight drafts treated by the drawer, that is, by the person who collects on it?

Exercise 25A. Drill

1. Bearing in mind the additional accounts mentioned in this section, orally journalize the following transactions:

a. Bot. store fixtures for cash. ($320.00)
b. Recd. a shipment of mdse. on which we paid freight charges. ($18.00)
Paid expressage on goods sent Brown. ($2.00)
d. Insured our property and paid premium. ($16.50)
e. Bot. books and stationery for cash. ($22.00)
f. Paid salaries of clerks. ($39.00)
g. Paid rent in cash. ($100.00)
h. Water taxes (or rates) due today. Paid same. ($9.40)
i. Paid Edison Electric Light Co. for last month's current. ($12.00)
(Caution: Why is it wrong to debit Edison Electric Light Co.? What does a debit balance in a personal account denote? Does the Company owe anything?)
j. Paid for towel service. ($2.50)
k. Distilled water bill for month was $3.75. Paid same.
l. Bot. postage stamps. ($20.00)
m. Paid for window cleaning during month. ($2.00)
n. Gave expressman tip. (25c.)
o. Advertised clearance sales in the newspapers. Paid bill for this service. ($40.00)
p. Recd. $10.00 from man who used our show window for demonstration.
q. Paid telephone bill for month. ($6.75)
r. Collected $1.25 for use of our telephone by strangers.
s. Drew a sight draft on Jones. He paid same. ($100.00)

t. Drew a sight draft on Brown, who paid same. ($250.00). Bank charged for collection $2.00.
u. Drew a sight draft on Thompson. ($500.00)
v. Bank collected Thompson's draft and gave us net proceeds. ($497.00)
w. Drew a sight draft on Brown & Co. ($500.00). They refused to honor same.
x. Lane & Co. drew a sight draft on us, which we paid. ($750.00)
y. H. Collins drew a sight draft on us, which we paid. ($200.00)
z. Smith & Co. drew a sight draft on us. We refused to pay same, because goods bought from Smith & Co. were defective. ($1,000.00)
aa. Shipped merchandise to Rollins Bros. to be sold on our account and risk. Mdse. cost us $1,000.00.
bb. Paid freight on shipment to Rollins Bros. ($5.50)
cc. Recd. remittance from Rollins Bros. for net proceeds of consignment. ($1,125.00)
dd. Recd. consignment of goods from Lane & Wilson, to be sold for their account and risk. Paid express charges on same. ($4.00)
ee. Sold some of the goods from the Lane & Wilson shipment. ($350.00)
ff. Sold the balance of the goods from the Lane & Wilson shipment. ($400.00)
gg. Sent Lane & Wilson an Account Sales, deducting express charges ($4.00), and commission $22.50. Net proceeds ($723.50) in cash.

2. Employing the form illustrated in Problem 2, Exercise 20*A*, page 69, enter therein the above transactions.

Exercise 25B

No exercise. Deferred until after Review of Elementary Bookkeeping and presented as Exercise 26*B*.

26. REVIEW OF ELEMENTARY BOOKKEEPING

Purpose.—We have learned that the purpose of bookkeeping is to record all business transactions in order to separate into appropriate accounts what the business received and what it gave as a result of each transaction. Accounts are collections of items, each one of which refers to the same person, thing or idea, and all systematically arranged under an appropriate title. Thus, Cash account records all moneys received by the business and all moneys disbursed by the business; customers' accounts, all claims against them arising out of sales, usually, and all returns or cancellations of such claims; Expense account, all services received by the business and returns of such service, etc., etc.

Accounts.—It was agreed to employ the conventional form of

an account, namely, a device consisting essentially of two money columns opposite each other:

It was furthermore agreed that when the account was to record money, it should be labeled "Cash"; when it was to refer to goods, Merchandise, etc., etc. We also agreed that the left-hand column should be reserved for receipts, while the right-hand column should record the disbursements only. Debit, abbreviated Dr., was found to be synonymous with left-hand or receipt, and Credit, abbreviated Cr., with right-hand or disbursement.

Double Entry.—When we were asked to consider a transaction of the following type: bought 100 bbls. flour @ $8.00 for cash, $800.00, we saw that we *gave* $800.00 in cash for $800.00 worth of flour or merchandise *received* by us. This equivalence of exchanges was found throughout the world of business, and *Double Entry Bookkeeping*, which essayed completely to record all business transactions, insisted upon debits (bookkeeping expression for *receipts*) equal in amount to corresponding credits (bookkeeping expression for "*givings*") as a result of every transaction.

It was pointed out that the function of bookkeeping was to separate each transaction into its component parts so as clearly to establish, as a result, just what was *received by the business* and what was *given by the business*. To help in this analysis, the idea of the moving picture screen was utilized. Imagine every transaction acted in the "movies" and "see" the receipts and disbursements involved. From this point of view, bookkeeping is remarkably simple, as indeed it truly is.

The next step after analyzing the transaction into its two opposite elements, is to label or name these elements correctly. For example: "Bought 10 bags of oats @ $1.25, for cash." Evidently oats were received and cash given. Accordingly, we have:

Oats	
$12.50	

Cash	
	$12.50

But should the debit account be called "Oats"? Was the expenditure for merchandise or as an expense? This depends entirely upon the purpose for which the oats were acquired. The test is this: if bought to be sold then it should be charged or debited to Merchandise account, but if purchased to be consumed, by our horses in this case, then it should be charged to the Expense account. We thus see that the labeling or naming of the accounts is almost as important as is the "seeing" of what was received and what was given.

Debit and Credit.—Three ways were learned to help in deciding on the debits and credits arising from business transactions:

(1) **Cash the Basis.** On the basis of the agreement for the Cash account, namely:

a′ Whenever the business *receives* cash, *debit* Cash account, and at the same time

a″ Credit another account (or other accounts) for the same amount.

b′ Whenever the business *gives* cash, *credit* Cash account and at the same time

b″ Debit another account (or other accounts) for the same amount.

Examples.—

(*a*) Sold Mdse. for cash, $500.00
Debit Cash a/c because the business received money;
Credit Mdse. a/c as the *other* account.

(*b*) Paid rent, $75.00
Credit Cash a/c because the business gave money;
Debit Expense a/c as the *other* account.

(*c*) James Riley began business by investing cash, $1,000.00
Debit Cash a/c because the business received money;
Credit James Riley, Prop. a/c, as the *other* account.

(2) **Substitution Device.**—But the Cash account basis was soon found inadequate because it failed to serve the needs of transactions not involving cash. To universalize the Cash basis rule, the *Substitution Device* was introduced. This device assumes cash or money as being involved in every transaction, proceeds to debit and credit accordingly, and then substitutes for Cash account the name of another account. To illustrate:

(*a*) Sold Brown Bros, merchandise on account, $300.00. On the assumption that the sale was for cash, we obtain:

Cash (?)		Merchandise	
$300.00			$300.00

But no cash was received. Hence, we must substitute for Cash the name of some more appropriate account. Brown Bros. is the only appropriate title, so choosing it, we have:

Brown Bros.		Merchandise	
$300.00			$300.00

When Brown Bros. pay us cash, their account is closed, and we then have:

Brown Bros.		Merchandise		Cash	
$300.00	$300.00		$300.00	$300.00	

(*b*) Bought of L. Best merchandise on account, $800.00. By similarly applying the Substitution Device, we derive the following solution, the steps of which are clearly indicated:

Merchandise		L. Best ~~Cash (?)~~	
$800.00			$800.00

(*c*) Discounted our own note at the bank. Face $1,000.00, discount $10.00, proceeds $990.00. Our first solution is:

Cash		Cash (?)		Notes Payable	
$990.00		$10.00			$1,000.00

As we did not receive $10.00 in cash, the title of some other account must be substituted for Cash account. We learned to employ Discount on Notes account for this purpose, so our final solution becomes:

Cash		Discount on Notes		Notes Payable	
$990.00		$10.00			$1,000.00

(3) The Universal Rule. We learned that there was still a more universal rule than the Cash account basis supplemented by the Sub-

stitution Device. We derived this rule in our attempts to obtain a general formula applicable alike to all accounts. It is:

Appropriately **Named** Accounts Must Be **Debited To** Record **What The** Business Received**, And**

Appropriately **Named** Accounts Must Likewise Be **Credited To Record What The** Business **Gave.**

To test the universality of this general rule for debiting and crediting, let us consider these examples:

	The Transaction.	What the business received, therefore DEBITED	What the business gave, therefore CREDITED
(*a*)	Bot. Mdse. for cash	**Mdse.** a/c (Goods were recd.)	**Cash** a/c (Money was given)
(*b*)	Sold Mdse. for cash	**Cash** a/c (Money was recd.)	**Mdse.** a/c (Goods were given)
(*c*)	Paid rent	**Expense** a/c or **Rent** a/c (A service recd. in that we are permitted to use the premises. This use is called expense or rent)	**Cash** a/c (Money was given)
(*d*)	Paid salary to clerk	**Expense** a/c or **Salary** a/c (A service recd. in that the clerk gave us his time, energy, ability, etc. This service is called expense or salary)	**Cash** a/c (Money was given)
(*e*)	Bot. books and stationery for cash	**Expense** a/c or **Stationery** a/c or **Office Expense** a/c (Goods recd. by the business to be consumed. Such goods are called expenses, or as indicated)	**Cash** a/c (Money was given)
(*f*)	Retd. stationery and recd. cash therefor	**Cash** a/c (Money was recd.)	**Expense** a/c or, etc. (Goods for consumption, given or retd. by the business)

	The transaction.	What the business received, therefore DEBITED	What the business gave, therefore CREDITED
(*g*)	Sold T. Smith Mdse. on a/c	**T. Smith** a/c (Recd. a claim against Smith which he must redeem)	**Mdse.** a/c (Goods were given)
(*h*)	Smith gave us cash in full of a/c	**Cash** a/c (Recd. money)	**T. Smith** a/c (Gave back the claim against Smith)
(*i*)	Sold Mdse. to Brown on his 10-day note	**Notes Receivable** a/c (Recd. a written promise to pay us money)	**Mdse.** a/c (Gave goods)
(*j*)	Brown paid us cash to redeem his note due today	**Cash** a/c (Recd. money)	**Notes Receivable** a/c (Gave note back as a receipt to Brown)
(*k*)	Bot. Mdse. from C. Lyons on a/c	**Mdse.** a/c (Recd. goods)	**C. Lyons** a/c (Gave a claim against us, i.e., an oral promise to pay for the goods bot. by us)
(*l*)	Gave C. Lyons our 30-day note in full of a/c	**C. Lyons** a/c (Recd. back our oral promise or book claim against us)	**Notes Payable** a/c (Gave our written promise in exchange for our oral one thereby canceled)
(*m*)	Paid our note favor of C. Lyons due today	**Notes Payable** a/c (Recd. back our written promise as a receipt)	**Cash** a/c (Gave money)
(*n*)	M. Crane began business by investing cash	**Cash** a/c (Recd. money)	**M. Crane, Prop.** a/c (Gave Mr. Crane a claim against the business somewhat similar to the claim given to a creditor to whom we owe money for a purchase on acct.)
(*o*)	Mr. Crane drew money for his personal use	**M. Crane, Prop.** a/c (Recd. return of part of claim against the business	**Cash** a/c (Gave money)

	The transaction.	What the business received, therefore DEBITED	What the business gave, therefore CREDITED
(*p*)	M. Crane sent some Mdse. home for his family	**M. Crane, Prop.** a/c (Recd. return of part of claim)	**Mdse.** a/c (Gave goods)
(*q*)	M. Crane began business by investing cash $2,000.00 and Mdse. $1,500.00	**Cash** a/c $2,000.00 (Recd. money) **Mdse.** a/c $1,500.00 (Recd. goods)	**M. Crane, Prop.** a/c $3,500.00 (Gave Mr. Crane a claim against the business)
(*r*)	Discounted at the bank Smith's note. Face $1,000, discount $15.00	**Cash** a/c $985.00 (Recd. money) **Discount on Notes** a/c $15.00 (Recd. the use of money from the date the note was discounted until its date of maturity. Such services are collected in an account labeled Discount on Notes)	**Notes Receivable** a/c $1,000.00 (Gave the note, previously recd. from a customer, Mr. Smith)
(*s*)	Discounted my own 90-day note at the bank. Face $1,000, discount $15.00	**Cash** a/c $985.00 (Recd. money) **Discount on Notes** a/c $15.00 (Recd. use of money)	**Notes Payable** a/c $1,000.00 (Gave our promissory note)
(*t*)	Paid for goods bot. from L. Macy last week, $350.00 less 2%	**L. Macy** a/c $350.00 (Recd. return of claim Macy held against us)	**Cash** a/c $343.00 (Gave money) **Dis. on Pur.** a/c $7.00 (Gave use of money by paying invoice before it was due)
(*u*)	R. C. Morse paid us $343.00 in full of invoice of goods sold him last week, $350, less 2%	**Cash** a/c $343.00 (Recd. money) **Discount on Sales** a/c $7.00 (Recd. the use of money in that Morse paid his bill ahead of time)	**R. C. Morse** a/c $350.00 (Gave back to him our claim against him)

Titles of Accounts.—It should be clear from the above analysis of twenty-one typical transactions that the general rule for determining debit and credit appears to be universal. As a matter of fact, there are no exceptions to it, so the student is urged to use it exclusively. The only real difficulty arises in connection with assigning an appropriate title to the account after deciding that it is a debit or a credit. Here practice is essential, and for that purpose the drills and exercises provided should be conscientiously employed.

To remove any exaggerated fear as to the difficulty involved in naming the accounts, a few analogies are in order. You can easily distinguish between a boy and a full grown man, but you will not be able to call either by name until you learn to know them. Or, you will recognize this object as a rose, but will be unable to decide whether it is a Richmond rose or a MacArthur rose, without some practice. Again, without practice, you may not be able to decide whether a certain grain is wheat or rye. This naming process is not any harder than the learning to know the names of your classmates, your neighbors or your customers, because after all is said, there are less than a dozen which will prove difficult at all.

Examples of what may prove difficult at first are (*a*) withdrawals by the proprietor, (*b*) the amount allowed to a customer for prepaying his debt to us, and (*c*) subdivisions of the Expense account. In order to show that the problem of naming is easier than often supposed, let us consider the items referred to.

(*a*) Withdrawals by the proprietor:

"L. Jones took money for personal expenses, $25.00." The student may be inclined to solve the transaction thus:

Expense	
$25.00	

Cash	
	$25.00

But he will soon learn to distinguish between expenses of the business and withdrawals by the owner of the business for the owner's private or personal reasons. Such withdrawals decrease the claim of the proprietor against his business, and should be shown as a reduction of investment. This is accomplished by charging the proprietor's account, because, as we say in applying the general rule for debiting and crediting, "the business *received* a return of a part of the owner's claim against the business." The task for the beginner, then, is to

associate the fact which he can "see" on the screen with the technical bookkeeping entry therefor so as to obtain in this case:

L. Jones, Prop.		Cash	
$25.00			$25.00

(*b*) Discounts allowed by us:

Smith, who bought goods from us last week, amounting to $500.00, pays us cash in full, less 2%. The transaction sometimes reads "Smith paid his invoice and *we gave him* an allowance of 2%," etc. Confusion arises in interpreting "we gave him" without analysis and thought. As soon as the transaction is analyzed, we see that we received money before it was due, therefore money *and* the use of money, in return for which we gave or returned the claim against Smith.

(*c*) Subdivisions of Expense account:

Shall certain expenditures be charged to Rent account or to Salary account, or to Freight and Expressage account, or shall all of them be debited to Expense account? Do not worry about these matters, for either charge is correct. It all depends upon how the information regarding expenses is desired; if the total of expenses is sufficient, the Expense account alone is employed, but if it is desired to know for what classes of items expenses were incurred, then as many accounts as are required may be employed.

The Journal.—As an aid to debiting and crediting, a Journal is employed. In this book appears a chronological summary of all transactions, and in addition, an indication of the accounts to be debited and credited. This separation into debits and credits is similar to what is accomplished by analyzing the transactions into debits and credits, but in the Journal the result is expressed in a more technical and formal way than in the analysis sheets which we learned to use earlier. Though the Journal, both in its form and in its use, will be modified by further study, journalizing (the process of determining debits and credits) is of such great importance that no real progress can be made in bookkeeping or accounting until it is mastered.

The Journal is one of the so-called books of original entry, other examples of which will be discussed elsewhere, because in it appears the first or original record of transactions. These entries are then transferred or posted from the Journal to the indicated accounts.

The Ledger.—The accounts are kept in a book called the Ledger. If the Journal is a book of original entry then the Ledger is a book of

subsequent or of final entry. The Ledger is consulted most frequently, because in it are found summarized all transactions of the business, conveniently grouped in accounts appropriately named. To facilitate reference to any particular account, a Ledger index is arranged. This alphabetical index enables one readily to find desired accounts. Though no erasures should appear in the Ledger for æsthetic reasons, it is more important that none be made in books of original entry, because it is the latter which are admitted as evidence in court proceedings. Surely, it is unnecessary to dwell upon the bad effect produced on the mind of a judge or jury by an erasure. To avoid the suspicion which erasures do create, corrections should be made by neatly crossing out the items to be omitted, preferably in red ink, and substituting corrections carefully explained.

The Trial Balance.—As each transaction results in equal debits and credits, the sum of all debits should equal the sum of all credits. This principle is utilized in testing the correctness of the Ledger. But as equals subtracted from equals result in equals, we use a list of all the *balances* (instead of all the *totals*) of all the accounts as a test of the correctness of the Ledger.

Though the Ledger accounts cannot be correct unless the Trial Balance shows the total of all the debit balances as equal to the total of all the credit balances, the student must be cautioned against relying absolutely on the Trial Balance test. The Trial Balance may "prove," and errors exist nevertheless. This subject is discussed at length in texts on Auditing, but it will be well here to point out three common types of errors which the Trial Balance will not disclose:

(*a*) Omission of transactions:

If the bookkeeper or salesman fails to make any record of a sale on account, for example, then neither a debit nor a credit will appear in the Ledger. It is just possible that the entire matter will be forgotten. The Trial Balance will not indicate this sort of error, for the equilibrium between debits and credits has not been disturbed.

(*b*) Failure to post an entire transaction:

Bookkeepers sometimes fail to post the debit and the corresponding credit for an entire transaction, especially when the entry is the last one on the Journal page. This error would not be detected by the Trial Balance, also for the reason that the equilibrium between the Ledger debits and credits would not be affected.

(*c*) Posting to the correct side but to a wrong Ledger account.

Only too frequently the careless bookkeeper may charge one account instead of another. Thus, though the Journal entry indicates that

Frank Riley's account be charged for a sale, the bookkeeper might debit Riley & Co.'s account or an account which bears even less resemblance to the correct one. The Trial Balance would not disclose such errors because the sum of the debits in the Ledger would nevertheless be equal to the sum of all the credits. Similarly, if postings were made to the credit side of the wrong Ledger account, the Trial Balance could not detect the error.

Trial Balance Errors.—Before passing from this subject it is well very briefly to indicate the positive service rendered by the Trial Balance:

(*a*) It provides a convenient summary of the Ledger.

(*b*) It tests the correctness of all postings, limited, however, as pointed out above.

(*c*) It indicates the nature of errors, other than those which it cannot disclose, of course. Thus, to consider four examples:

> (1) If the sides of the Trial Balance differ by one cent, ten cents, one dollar, ten dollars, or some other unit figure, experience suggests that the error consists either of an error in addition of the sides of an account or in obtaining the balance of the account.
>
> (2) What would be the result shown by the Trial Balance if the bookkeeper failed to post the debit part of the entry? A failure on the part of the Trial Balance to prove suggests that possibly one side of an entry was not posted. The omission will be, of course, on the smaller side, and the amount involved is sought by inspecting debits of the book of original entry for an amount equal to the difference between the Trial Balance totals of debits and credits.
>
> (3) If a debit item is posted to the credit side the Trial Balance will result in having a credit total greater than the debit total by exactly twice the amount of the error. Test this statement for yourself to prove it, and then explain it to your own satisfaction. This fact is utilized by the bookkeeper, who, if he finds one side of the Trial Balance greater than the other, seeks an item in his book of original entry just half as large as the one which may have been posted to the wrong side.
>
> (4) If the difference between the debit and credit totals of the Trial Balance is exactly divisible by nine, transposition of figures is indicated. $102.92 posted as $102.29 will result in a difference of 63 cents, which divided by 9 gives 7. The numbers

transposed or interchanged which differed from each other by 7 are only 0 and 7, 1 and 8, 2 and 9. Tables may be prepared which show the index figure corresponding to each possible transposition. The bookkeeper then goes through his books of original entry to ascertain whether any such item has actually been posted incorrectly.

In practice, neither the bookkeeper nor the accountant spends much time in seeking errors by means of the principles just discussed. In case the Trial Balance suggests the existence of an error which is not readily discovered, the entire posting, totaling and balancing is rechecked. Indeed, even if the Trial Balance proves, it is well to check back the entire work "to make assurance doubly sure," for as the student now knows, the Trial Balance is not a positive proof of correctness.

Progress and Condition of the Business.—Though the narrow purpose of bookkeeping is systematically to record business transactions and to analyze them into accounts, the wider aim of bookkeeping is to disclose the progress and the condition of the business. After journalizing the transactions and then posting the entries to the accounts of the Ledger, a Trial Balance is taken to summarize the Ledger and test its correctness. Finally, the statements are prepared and though these vary greatly in form, the essential principles hold true. The Profit and Loss Statement arranges the items which show losses or gains so as to produce the net profit. The Statement of Assets and Liabilities arranges all the assets (what the business *owns*) and opposes to these the liabilities (what the business *owes*) so as to result in the net capital or net worth. The correctness of the net capital is proved by adding the net profit to the net investment or by deducting the net loss from the net investment.

Closing the Books.—After ascertaining the progress and condition of the business, it may be desired to incorporate in the books the results shown by the two statements. In other words, it may be desired to place the net profit and the net capital in the Ledger. To place the net profit in the books, it is necessary to open a new account, the Loss & Gain account, and to transfer to this account the losses and the gains shown by the individual accounts, such as Expense, Merchandise, etc. The Loss and Gain account will now correspond to the Profit and Loss Statement. In order to transfer the balance of the Loss and Gain account, a final Journal entry is necessary which not only transfers the net profit or the net loss to the proprietor's account, but which

also closes the former account. The last step consists of bringing down the net capital, the balance of the proprietor's account.

Balancing Accounts.—Though the books are generally closed once each year, individual accounts may be closed or balanced much oftener. Thus, the Cash account may be balanced monthly, or oftener, for convenience. Personal accounts when entirely settled, may also be closed or ruled off. But the formal closing of personal accounts is no longer universal, while the use of red ink, although still employed, is rapidly falling into disuse.

Division of the Merchandise Account.—Instead of employing one Merchandise account, it is better to use three accounts: Merchandise Inventory for the goods on hand at the beginning and at the end of periods, Merchandise Purchases for goods bought and returned by us, and Merchandise Sales for goods sold and returned to us. The employment of these three accounts facilitates the obtaining of such useful information as, for example, the net purchases for any given period, the net sales for the corresponding period, and the profit on the sales for the same period.

SUMMARY

Bookkeeping has been defined as the science of accounts. Double entry bookkeeping systematically records all the transactions of a business so as to show what the business gave for what it received in each transaction. This record is first made in some book of original entry like the Journal, where a brief statement of the occurrence is made together with an analysis of the exchange, separating what was received into appropriately designated debits and what was given into equally well-named credits. These debits and credits are then posted to the accounts of the Ledger. Subsequently, these accounts are analyzed so as to disclose the income and expenses of the business resulting in the net profit or net loss; and a further analysis is made so as to separate what the business owns from what it owes, thus leading to the net capital.

Review Questions

1. What is bookkeeping?
2. Could a business man who had not kept any books ascertain how much he had made during the year? Explain.
3. Upon what principle is double entry bookkeeping based?
4. Give a general rule for debiting and crediting.

5. Show that the rule applies to the following transactions:

(a) Investment of merchandise and cash by the proprietor.
(b) Redeeming our promissory note.
(c) Paying premium on an insurance policy.
(d) Discounting at the bank a customer's note which we owned.
(e) Return of cash to us by the express company for an overcharge.

6. What is the function of the Trial Balance?

7. Point out the kind of errors which the Trial Balance cannot detect.

8. What is the essential difference between the Profit and Loss Statement and the Statement of Assets and Liabilities?

9. Show how one statement is a check on the other.

10. On which side of the Trial Balance would you expect to find the balance of each of the following accounts? Give your reasons fully in each case:

(a) Cash account.
(b) Merchandise Sales account.
(c) Expense account.
(d) Proprietor's account.
(e) Discount on Purchases account.
(f) Notes Receivable account.
(g) Customer's account.
(h) Notes Payable account.
(i) Furniture and Fixtures account.

11. What function does the Journal perform?

12. Carefully rule a Journal sheet. Use plain, unruled paper. State what each column is used for.

13. What is the Ledger?

14. On plain paper, rule up a Ledger sheet and state how each column is used.

15. Why should no erasures be made in books of original entry? How should errors be corrected?

16. Would you rather sell Jones merchandise on account or on his 30-day note? Why?

17. What is the difference between an ordinary promissory note and single-name paper?

18. Bookkeeping is sometimes defined as "the science of accounts." Give your own definition.

19. If your employer could make ten per cent a year on his money, would you advise him to pay an invoice, the terms of which were "2/10, n/60" in ten days or wait sixty days? Explain fully.

20. What are the requisites of a good Journal explanation?

21. State how to obtain the balance of any Ledger account. Explain with sufficient fullness to enable a beginner to do the work correctly.

22. Criticize the following definition of selling on account: "It means giving away some goods for nothing."

23. How often should a Trial Balance be taken?

24. How often should the books be closed?

25. Define asset, liability, loss, gain, account, buying on account, closing the books, Trial Balance, net investment, net capital.

Exercise 26A. Drill

1.

New York, Nov. 5, 19——

Sold to L. R. Johnson,
2100 Broadway, City.

HENRY M. LANE

Grocer and Fruiterer

80 Front Street.

Terms 2/10, n/30.

	20	lbs. Rio Coffee	.18	3	60		
	5	lbs. Mixed Tea	.35	1	75		
	1	case Pres. Cherries		4	25		
						9	60

(*a*) Who sold these goods? When?
(*b*) Who bought these goods?
(*c*) Show the entry in Mr. Johnson's books on Nov. 5.
(*d*) Show the entry in Mr. Lane's books on Nov. 5.
(*e*) If the bill was paid on Nov. 15, show the entry in Mr. Johnson's books.
(*f*) Show the entry in Mr. Lane's books the same day.
(*g*) If the bill was paid on Dec. 5, show Mr. Johnson's entry.
(*h*) Show the entry in Mr. Lane's books the same day.

2.

$2000.00 New York, Sept. 8, 19——

Two months after date, I promise to pay
H. C. Beadle .... or order
Two thousand .... Dollars.
Value received.

No. 26 Due Nov. 8, 19—— CHAS. L. BROOKS.

(a) Who is the maker of this note? Why did Mr. Brooks promise to pay to Mr. Beadle?
(b) Who is the payee? Why so called?
(c) Show the entry in Mr. Brooks' books on Sept. 8.
(d) Show Mr. Beadle's entry on the 9th, when he received it by mail.
(e) On Sept 18, Mr. Beadle had the note discounted at his bank, The Fourth National. Rate 6%. Find the net proceeds.
(f) Show the entries in Mr. Beadle's books at this time.
(g) Show his indorsement on the note.
(h) What entry does Mr. Brooks make at the same time? Why?
(i) On Nov. 8, 19—, the note is paid. By whom?
(j) Show the entry in Mr. Brooks' books on Nov. 8.
(k) Show Mr. Beadle's entry at the same time. Why?
(l) If the note had not been discounted, what would Mr. Beadle's entry have been on Nov. 8?

3.

New York, Nov. 21, 19—

ROBERT BUKMAN

High Grade Stationery

65 Pearl Street

Sold to L. R. Johnson, 2100 Bway., City.

Terms: Cash							
	1	Ledger		2	50		
	1	Journal		1	60		
	6	Memo. Books	.15		90		
	4	doz. No. 201 Pencils	.35	1	40		
						6	40
		PAID 11/21/19— Robert Bukman					

(a) Does Mr. Bukman refer to the goods listed in this invoice as "merchandise" or "expense"? Explain fully.
(b) Show the entry in Mr. Bukman's books.
(c) Show the entry in Johnson's books.
(d) On Nov. 22, 2 doz. pencils were returned and cash returned. Show the entry in the seller's books.
(e) Show the entry in the buyer's books.

4. On Sept. 8, Mr. Jones should have been charged $32.28 instead of $23.28. The error was caused by transposing the item when posting it from the Journal. Make the correction.

L. C. Jones, Lakewood, N. J.

19—						19—					
June	18	J	7	308	00	July	7	J	9	308	00
July	3		11	34	00	Aug.	8		16	34	00
Sept.	8		21	23	28						
	21		24	105	11						

5. On Oct. 15, we sold F. D. Brewster, 2/10, n/30, 200 bbls. flour @ $9.00 and 1,000 bu. oats @ 60c. The entry made in the Journal was as follows:

Oct. 15					
F. D. Brewster Mdse. Sales	Sold 2/10, n/30, 200 bu. oats @ 60c. 1,000 bbls. flour @ $9.00	9,120	00	9,120	00

You discovered the error as you were about to post the entry. What would you do about it?

6. In checking back your posting, you discover that you credited L. C. Mace & Co. instead of H. R. Macy & Co. for a payment of $800.00 less 2%, received Dec. 8, 19—. How would you rectify the error?

7. The following Trial Balance was obtained from the "T" accounts of Problem 3, Exercise 14A, page 50.

"Student," Prop.		$4,977.50
Cash	$5,130.00	
Expense	160.00	
Mdse.	540.50	
Notes Receivable	500.00	
Notes Payable		1,000.00
H. Jameson		230.00
R. A. Franke		400.00
C. T. Clynne		900.00
Amos Trickert	82.00	
H. Levey & Co.	140.00	
	$6,552.50	$7,507.50

Suggest the probable nature of the error. Test your surmise.

8. What kind of error is indicated by failure to prove of the following Trial Balance; Problem 1, Exercise 14A, page 49.

Frank R. Crane, Cap.		$3,880.00
Mdse.		560.00
Expense	$663.00	
Thomas Browne	1,500.00	
Smith & Foley	1,400.00	
Lane & Court	570.00	
Smith & Smith	240.00	
Notes Receivable	1,800.00	
Cash	3,571.00	
James Talcott		2,850.00
Smiley & Co.		700.00
Babcock & Co.		700.00
Notes Payable		1,000.00
	$9,744.00	$9,690.00

Is your belief correct? Test it by means of the Ledger balances resulting from transactions in the given exercise.

9. Orally journalize the following transactions:

(*a*) Bot. Mdse. $1,000.00; paid cash $300.00, balance on account.
(*b*) Paid taxes $34.75.
(*c*) Recd. $5.00 for use of window by belt demonstrator.
(*d*) Advertised Saturday's sale in newspaper. The cost, $15.00, was paid in cash.
(*e*) A clerk took some goods ($3.00) home for his own use. His weekly salary is $15.00. Paid him salary for week, $12.00.
(*f*) Had new shelves put up in store. The carpenter charged $7.50 for materials and $14.00 for labor. Paid him in cash.
(*g*) Johnson's 60-day note for $300.00 is due today. He gave it to us two months ago in payment of his account. He now asks us to take his new 30-day note in payment of the one which he should pay today. We do so as a special favor to him. What entry do we make? What entry does he make?

10. L. C. Jones began business a year ago with a cash investment of $5,000.00. He drew out during the year for his personal use $150.00. Today, at the end of his first year in business, his assets equal $18,500.00 and his liabilities $10,200.00.

(*a*) How much did he gain?

(*b*) What per cent did he make on his investment? On his net investment?

(*c*) Assume that his net sales for the year amounted to $24,200.00. What per cent of his net sales was his net profit?

(*d*) The Profit and Loss Statement was as follows:

Mdse. Purchases during the year		$19,935.00	
Less Inventory		1,800.00	
Cost of Mdse. Sold		$18,135.00	
Proceeds from Sales of Mdse.			$24,200.00
Gross Profit carried down		6,065.00	
		$24,200.00	$24,200.00
Gross Profit brought down			6,065.00
Expenses for year	$2,800.00		
Less Inventory	370.00		
		2,430.00	
Discount on Sales		110.00	
Discount on Notes		75.00	
		$2,615.00	
Net Profit		3,450.00	
		$6,065.00	$6,065.00

What per cent of the sales was the expenses?

11. Mr. Simpson's assets amount to $31,000.00, his liabilities to $18,500.00; net investment was $20,000.00.

(*a*) What is his net loss?

(*b*) What per cent of his net investment is his net loss?

12. H. M. Karp's net investment was $5,000.00. His assets amount to $2,400.00, his liabilities to $3,600.00.

(*a*) What happened to his investment?

(*b*) A concern is said to be insolvent when its liabilities are greater than its assets, i.e., when its funds are insufficient to pay its creditors. How much does Mr. Karp's net insolvency amount to?

(*c*) How many cents on the dollar can Mr. Karp pay?

13. From the following Trial Balance as of May 31, 19—, prepare a Profit and Loss Statement and a Statement of Assets & Liabilities:

Philip Silver, Capital		$2,400.00
Cash	$1,500.00	
Mdse.		1,330.00
Expense	455.00	
Discount on Sales	85.00	
Discount on Purchases		110.00
Notes Receivable	1,000.00	
James Lucky	1,300.00	
John Light	900.00	
Frank Dwyer	520.00	
Arthur Wright	280.00	
Brown Bros.		830.00
L. Lansing		1,370.00
	$6,040.00	$6,040.00

Merchandise Inventory, $1,200.00.

(*a*) Mr. Silver began business two months ago. Do you think his business is successful? Discuss and explain fully.

(*b*) How would you modify your answer if Mr. Silver had been in business for five years?

14. Analyze each of the accounts shown in the Trial Balance of Problem 13, above, and state all you can regarding each of them.

15. Show all necessary entries in the books of the buyer and of the seller under the correct dates:

No.	Date.	Terms.	Buyer.	Seller.	Amount.	Remarks.	When paid.
1	Nov. 3	2/10, n/30	Brown	Bailey	$1,200.00	....	Nov. 12
2	Sept. 16	Net	Smith	Jones	310.00	....	Sept. 24
3	Apr. 30	Cash	Riley	Rowe	54.36	....	May 6
4	Mch. 5	1/30, n/60	Blaine	Harrison	840.00	$12.00 worth retd. Mar 8	Apr. 4
5	Dec. 31	2/10, 1/30 n/60	Adams	Jefferson	916.00	....	Jan. 8

16. L. C. Franke is the maker and Harold Luke is the payee of each of the following notes:

No.	Date.	Face.	Terms.	When recd. by payee.	When Discounted.	Rate of Dis.
1	Sept. 30, 19—	$1,000 00	30 days	Sept. 30, 19—	Oct. 6, 19—	6%
2	Apr. 16, 19—	2,400 00	60 days	Apr. 17, 19—	May 4, 19—	6%
3	May 31, 19—	600 00	4 mos.	May 31, 19—	June 1, 19—	6%
4	Oct. 26, 19—	3,200 00	90 days	Oct. 27, 19—	Nov. 1, 19—	6%
5	Dec. 6, 19—	1,850.00	60 days	Dec. 6, 19—	Jan. 4, 19—	6%

Make the entries in the books of both parties whenever entries are necessary.

Exercise 26B. Review Set

1. Journalize the following transactions:

May, 19—

1 L. B. Collins began the flour and grain business by investing cash $8,500.00, office furniture $300.00 and merchandise as follows: 1,000 bu. wheat @ $1.00; 850 bbls. potatoes @ $2.00, total investment, $11,500.00

Paid in cash: rent $75.00; printing and stationery $18.50; office fixtures $125.00

2 Bot. of L. C. Smith, 2/10, n/30, 2,000 bu. corn @ 60c., $1,200.00

Bot. of R. Rogers, 2/10, n/30, 200 bbls. flour @ $7.80, $1,560.00

3 Bot. of R. Brown, on acct., 2,000 bu. wheat @ $1.00, $2,000.00

4 Sold R. Thom & Bro., on acct., 1,000 bu. corn @ 80c., $800.00

Sold M. Mullin & Son, on their 15-day note, 150 bbls. flour @ $10.00, $1,500.00

5 Retd. to R. Rogers, 10 bbls. flour @ $7.80, on account of poor quality. Received credit for $78.00

6 Discounted my 60-da. note at bank. Face $5,000.00, discount $50.00, net proceeds $4,950.00

Paid in cash: clerk hire $40.00; tip to janitor $5.00

Drew for private use, cash, $100.00

Sold Brown & Robbins, on their 10-day note, 1,000 bu. wheat @ $1.25, $1,250.00

Donated to Salvation Army, 1 bbl. flour, $8.00; to Sea Side Home, cash $5.00. (Charge to Expense account; credit Sales account and Cash account, respectively)

8 Sold to Cooper & Co., 2/10, n/30, 600 bbls. potatoes @ $2.25, $1,350.00

9 Sold Thom & Bro., 2/10, n/30, 1,000 bu. wheat @ $1.25, $1,250.00

10 Paid L. C. Smith, cash in full of invoice of 5/2, less 2%, $1,176.00

11 Bot. of L. C. Smith, 2/10, n/30, 1,000 bu. potatoes @ $1.50, $1,500.00
12 Paid R. Rogers on acct., cash, $1,000.00, receiving credit for $1,020.00
(Note that this is a part payment of the May 2d invoice. 2% of $1,000.00 is $20.00, the credit to Discount on Purchases account. Mathematically and theoretically we *should* have received credit for $1,020.41, $1,000.00 divided by 98%)
13 Gave R. Rogers my 30-day note for balance of account ($462.00)
Paid clerk hire, cash, $50.00
Sent goods home for private use, 2 bbls. flour @ $9.00, $18.00
15 Gave R. Brown my 15-day note, on account, $1,000.00
16 Discounted Mullins' note of 5/4, proceeds $1,499.25
Brown & Robbins paid their note of the 6th inst., cash, $1,250.00
17 Cooper & Co., paid their invoice of 5/8, less 2%, cash, $1,323.00
19 Thom & Bro., gave us their 15-day note for invoice of 5/4, less 1%, $792.00.
(Charge Notes Rec. account $792.00, Dis. on Sales account $8.00; credit R. Thom & Bro. $800.00)
20 Bot. store property for $6,000.00, cash. (Charge Real Estate acct.)
22 Paid plumbing bill, cash, $25.00
26 Paid R. Brown in full of acct., cash, $1,000.00
30 Paid my note of 5/15, favor of R. Brown, cash, $1,000.00
31 Paid in cash: clerk hire $50.00; gas bill $7.50; telephone bill $12.00

2. Post the Journal entries resulting from the foregoing transactions. Employ properly ruled Ledger sheets, and allow the following number of lines, exclusive of space required for headings:

Cash account, twenty lines; Purchase account and Sales account, each, ten lines; Expense, fifteen lines; five lines each for the following accounts: Merchandise Inventory account, Furniture & Fixtures, L. C. Smith, R. Rogers, R. Brown, R. Thom & Bro., Discount, Discount on Sales, Discount on Purchases, Cooper & Co., Real Estate; eight lines each: Notes Receivable account, Notes Payable account and L. B. Collins, Prop's. account.

3. Take a Trial Balance.

4. Prepare a Statement of Profit and Loss and a Statement of Assets and Liabilities. The value of the unsold merchandise is $4,200.00; unconsumed expense items are worth $10.00; office furniture has depreciated 10%, so that it is worth only $382.50 instead of $425.00; the real estate has not changed in value.

5. Close the books. Allow ten lines for Loss and Gain account, and three lines each for Furniture & Fixtures Inventory account and Expense Inventory account.

Exercise 1C

Enter the following transactions:

19—		
Mar.	3	Sold 5 bbls. peaches @ \$5.00 for cash
	5	Sold 20 bbls. apples @ \$4.00 for cash
	9	Bot. 50 bbls. apples @ \$3.00 for cash
	12	Sold 10 bbls apples @ \$4.50 for cash
	18	Paid clerk's salary \$12.50
	19	Bot. 10 bbls. peaches @ \$4.00 for cash
	26	Sold 5 bbls. peaches @ \$5.00 for cash
	26	Sold 10 bbls. apples @ \$4.00 for cash

Exercise 2C

Enter the following transactions:

19—		
Apr.	2	Bot. 100 bbls. flour @ \$5.00 for cash
	7	Sold 10 bbls. flour @ \$7.00 for cash
	9	Bot. 10 bbls. potatoes @ \$5.00 for cash
	12	Sold 5 bbls. flour @ \$7.00 for cash
	19	Sold 5 bbls. potatoes @ \$6.00 for cash
	28	Sold 20 bbls. flour @ \$7.50 for cash
	30	Bot. 10 bbls. potatoes @ \$5.00 for cash
	30	Sold 10 bbls. flour @ \$7.00 for cash
	30	Sold 10 bbls. potatoes @ \$6.50 for cash

Exercise 3C

Enter the following transactions:

19—		
May	1	Paid rent of store, cash \$50.00
	3	Paid for printing and stationery \$25.00
	5	Bot. 150 bbls. potatoes @ \$5.00 for cash
	7	Sold 80 bbls. potatoes @ \$6.00 for cash
	7	Paid clerk's salary, cash \$15.00
	12	Paid for sundry expenses cash \$5.00
	12	Sold 80 bbls. potatoes @ \$6.00 for cash
	14	Paid clerk's salary, cash \$15.00
	31	Paid telephone bill cash \$10.00

Exercise 4C

Enter the following transactions:

19—		
June	1	A. Walsh began business by investing cash \$1,000.00
	1	Paid rent in cash \$50.00
	4	Paid salaries of clerks, cash \$25.00

6 Bot. 100 bbls. fruit for cash @ $4.50
8 Sold 10 bbls. apples for cash @ $5.00
11 Paid salaries of clerks, cash $25.00
15 Sold 10 bbls peaches for cash @ $6.00
16 Mr. Walsh sent home, for private use, fruit valued at $10.00
18 Paid salaries of clerks, cash $25.00
20 Mr. Walsh took for private use, cash $25.00
22 Bot. 10 bbls. apples @ $5.00 for cash

Exercise 5C

Prepare a Trial Balance of Totals of all the Ledger accounts resulting from Exercise 4*C*.

Exercise 6C

Enter the following transactions:

19—
July 1 W. Wilson began business by investing cash $2,000.00
1 Paid rent in cash $125.00
2 Bot. 100 bbls. flour @ $5.00, for cash
5 Sold 10 bbls. flour to J. Jones, on acct. 10 days $60.00
6 Paid clerks $15.00
8 Sold 10 bbls. flour to S. Smith, on acct. 10 days $60.00
12 Sold 5 bbls. flour to J. Jones, on acct. 10 days $30.00
14 Recd. on acct. from J. Jones, $50.00
17 Sold 10 bbls. flour to A. Andrews, on acct. 10 days $65.00
19 Recd. from S. Smith, cash $60.00
22 Sold R. Roberts, 10 days on acct. 12 bbls. flour $60.00
25 Sold S. Smith, 10 days on acct., 5 bbls. flour $30.00
25 Recd. from J. Jones cash, in full of acct., $40.00
31 Recd. from R. Roberts, on acct., $25.00

Exercise 7C

Enter the following transactions:

19—
Aug. 1 Thos. Warner began business investing $2,500.00 cash
1 Paid rent in cash $50.00
3 Bot. from M. Morris, on acct. 10 days, mdse. $250.00
5 Bot. from H. Hansen, on acct. 10 days, mdse. $500.00
9 Sold to B. Burns, on acct. 10 days, mdse. $60.00
12 Sold to J. O'Connor, on acct. 10 days, mdse. $50.00
13 Paid to M. Morris, on acct. $100.00
15 Paid to H. Hansen, on acct. $100.00
20 Recd. on acct. from B. Burns $40.00
30 Recd. in full of acct. from J. O'Connor $50.00
30 Paid M. Morris in full of acct. $150.00

Exercise 8C

Enter the following transactions and prepare a Trial Balance of Totals:

19—		
Sept.	1	Walter Blaker began business, investing $1,000.00
	1	Paid rent and expenses $100.00
	3	Bot. on acct. from R. Fielder, mdse. $75.00
	6	Sold to L. Levy mdse. on acct. $125.00
	9	Bot. on acct. from L. Strauss, mdse. $750.00
	12	Bot. on acct. from M. Myers, mdse. $60.00
	13	Paid on acct. to R. Fielder $50.00
	15	Sold on acct. to W. Benson, mdse. $100.00
	18	Sold on acct. to B. Perlman, mdse. $125.00
	20	Sold mdse. for cash $25.00
	20	Recd. on acct. from L. Levy $75.00
	22	Paid for printing and stationery $10.00
	23	Paid on acct. to L. Strauss $100.00
	23	Bot. on acct. from L. Strauss, mdse. $50.00
	25	Paid on acct. to M. Myers $40.00
	28	Sold on acct. to D. Bandler, mdse. $100.00
	28	Paid L. Strauss on acct. $50.00
	28	Recd. from L. Levy in full of acct. $50.00

Exercise 9C

Journalize the transactions given in Exercise 6*C*.

Exercise 10C

Post the entries resulting from journalizing 9*C* and take a Trial Balance of Totals.

Exercise 11C

Journalize transactions of 7*C*.
Post the resulting Journal entries.

Exercise 12C

Journalize and post the following transactions:

19—		
Oct.	1	R. Saks started business, investing cash $2,000.00
	2	Paid cash for rent and stationery $100.00
	4	Bot. of J. Aarons, mdse. on acct. $200.00
	6	Sold to A. Bernstein, on 15-day note, mdse. $200.00
	7	Sold to L. Cohn, on 15-day note, mdse. $150.00
	8	Sold to L. Dans, on 10-day note, mdse. $300.00
	10	Bot. on my 20-day note from E. Edwards, mdse. $500.00

13 Bot. on my 1-mo. note from F. Frantz, mdse. $200.00
14 Sold to G. Goodson on his 10-day note, mdse. $100.00
18 Recd. cash from L. Dans for 10-day note $300.00
18 Sold for cash to H. Hart, mdse. $50.00
20 R. Saks drew for personal use $150.00
20 R. Saks took mdse. home for personal use $25.00
21 Recd. cash from A. Bernstein for 15-day note $200.00
21 Recd. cash from L. Cohn for 15-day note $150.00
25 Paid on acct. to J. Aarons $100.00
25 Recd. cash from G. Goodson for his note $100.00
28 Sold to A. Bernstein on his 15-day note $500.00
30 Sold to L. Cohn on his 15-day note, mdse. for $250.00
30 Paid clerk hire $50.00
Paid expense bills $35.00
Paid my 20-day note to E. Edwards $500.00

Exercise 13C

Journalize and post the following transactions:

19—
Nov. 1 L. Heinrich began business and invested cash $2,000.00, and mdse. $600.00
1 Paid rent and expenses $200.00
2 Bot. on acct. from S. Silver, mdse. $500.00
3 Sold on acct. to D. Eichler, mdse. $100.00
6 Gave S. Silver my 10-day note on acct. $200.00
8 Recd. on acct. from D. Eichler, his 10-day note, $50.00
10 Paid clerk's salaries $60.00
11 Sold to D. Eichler, mdse. $300.00
16 Recd. from D. Eichler, balance of inv. 11/3, $50.00
16 Paid my 10-day note to S. Silver $200.00
18 Recd. from D. Eichler for his 10-day note, $50.00
20 Bot. on my 15-day note from B. Anthony, mdse. $250.00
22 Bot. on my 10-day note from J. Ferber, mdse. $300.00
25 Sold to L. Schack, on 10-day note, mdse. $200.00
25 Paid clerk's salaries $60.00
28 Paid on acct. to S. Silver, $200.00
30 Sold for cash, mdse. $50.00

Exercise 14C

Prepare a Trial Balance from Exercise 12*C*.

Exercise 15C

Prepare a Profit and Loss Statement for Mr. R. Saks, Exercise 12*C*.

Exercise 16C

Prepare a Statement of Assets and Liabilities for Mr. R. Saks, Exercise 12C.

Exercise 17C

Journalize the following transactions:

19—		
Nov.	1	E. England began business, investing cash $5,000.00
	1	Paid rent $100.00
	3	Bot. of S. Stein, 2/10, n/30, mdse. $600.00
	5	Bot. of O. Osterman, 2/10, n/30, mdse. $500.00
	7	Sold M. Messing, 2/10, n/30, mdse. $300.00
	8	Sold Harold Jones, 2/10, n/30, mdse. $900.00
	10	Bot. of G. Jacobs, 2/10, n/30, mdse. $500.00
	10	Paid S. Stein on acct. (p. discount $8.00), $392.00
	12	Bot. of G. Gold, 2/10, n/30, mdse. $300.00
	15	Paid O. Osterman in full of invoice (less 2%), $490.00
	18	Recd. cash on acct. from M. Messing, $150.00
	20	Sold to E. Engle, 2/10, n/30, mdse. $100.00
	22	Recd. on acct. from H. Jones, $500.00
		Paid on acct. to G. Jacobs, $250.00
		Paid on acct. to G. Gold, $200.00
	25	Recd. cash in full of acct. from M. Messing (less 2% of $150.00), $147.00
	30	Recd. cash in full of acct. from E. Engle, less 2%, $98.00

Exercise 18C

Journalize the following transactions:

19—		
Dec.	1	Frank Condon began business, investing cash $3,000.00
	1	Paid rent $100.00
	2	Bot. of H. Williams 2/10, n/30, mdse. $500.00
	2	Bot. of W. Duggan, 2/10, n/30, mdse. $500.00
	3	Sold to A. Besser, 2/10, n/30, mdse. $300.00
	6	Sold to B. Greenwald, 2/10, n/30, mdse. $600.00
	9	Sold to Al. Meyers, 2/10, n/30, mdse. $400.00
	12	Paid on acct. to H. Williams (less 2%) $245.00
		Paid on acct. to W. Duggan (less 2%), $245.00
		Mr. Condon drew for personal use $100.00
	14	Recd. cash on acct. from A. Besser (less 2%), $196.00
	15	Paid salaries $60.00
	15	Recd. cash in full of acct. from B. Greenwald (less 2%), $588.00
	16	Recd. cash in full of acct. from Al. Meyers (less 2%), $392.00

Exercise 19C

Journalize the following transactions:

19—

Jan. 2 John Jones began business, investing cash $5,000.00
Paid rent $100.00
4 Bot. of F. Masterson, 2/10, n/30, mdse. $500.00
Sold M. Matthews, 2/10, n/30, mdse. $300.00
6 Sold for cash, mdse. $50.00
8 Bot. on acct. 2/10, n/30 of Mr. Rollins, mdse. $1,000.00
10 Paid expense bills, $100.00
12 Sold to M. Army, on acct., mdse. $200.00
14 Recd. from M. Army, his 10-day note for $200.00
15 Discounted at bank M. Army's note. Recd. proceeds
Paid F. Masterson in full of inv., deducting discount
16 Recd. of M. Matthews cash for ½ invoice of 1/4 (less 2%)
Borrowed on my 60-day note from the bank, at 5%, $1,000.00

Exercise 20C

Journalize the following transactions:

19—

Feb. 1 Student began business by investing cash $5,000.00, and mdse. $2,400.00
Paid rent, $250.00
Bought from H. Harvey, on a/c, 2/10 n/30, mdse. $1,000.00
3 Sold J. Smith, on a/c, 2/10, n/30, mdse. $500.00
5 Bot. on my 10-day note from H. Strauss, mdse. $1,000.00
7 Sold on a/c, 2/10, n/30, to Wilson & Co., mdse. $500.00
Paid salaries and expenses $65.00
10 Discounted at bank, my 3-months note, at 5%, $2,000.00
11 Paid ½ of inv. of H. Harvey, 2/1 (less 2%), $490.00
13 Gave H. Harvey my 2-months' note for balance due
Recd. from Smith, his 30-day note in full $500.00
14 Discounted Smith's note at bank, at 5%
15 Paid my note to H. Strauss, $1,000.00
Sold my 2-months' note to broker, at 5%, $3,000.00
Bot. of R. Roberts, mdse. $1,000.00. Paid cash for ½ of inv. $500.00.
Gave 30-day note for $250.00, and balance on acct., $250.00
17 Recd. from Wilson & Co. on acct. $245.00 to cancel ½ of inv. of 2/7

Exercise 21C

Journalize the following transactions:

19—

Sept. 1 Walter Blaker began business investing $1,000.00
1 Paid rent and expenses $100.00

Sept. 3 Bot. on acct. from R. Fielder, mdse. $75.00
5 Retd. to R. Fielder, mdse. $10.00
6 Sold to L. Levy mdse on acct. $125.00
9 Bot. on acct. from L. Strauss, mdse. $750.00
12 Bot. on acct. from M. Myers, mdse. $60.00
13 Paid on acct. to R. Fielder $50.00
15 Sold on acct. to W. Benson, mdse. $100.00
18 Sold on acct. to B. Perlman, mdse. $125.00
20 Sold mdse. for cash, $25.00
Recd. on acct. from L. Levy $75.00
22 Paid for printing and stationery $10.00
Paid on acct. to L. Strauss $100.00
23 Bot. on acct. from L. Strauss, mdse. $50.00
25 Paid on acct. to M. Myers $40.00
26 Retd. to L. Strauss, mdse. $20.00
W. Benson, retd. to us mdse. $25.00
B. Perlman, retd. to us mdse. $5.00
Allow to B. Perlman, damage $5.00
28 Sold on acct. to D. Bandler, mdse. $100.00
Paid L. Strauss on acct. $50.00.
Recd. from L. Levy in full of acct. $50.00

Exercise 22C

Journalize Exercise 21*C*, employing Merchandise Purchases and Merchandise Sales Accounts.

Post and take a Trial Balance.

Exercise 23C

Prepare a Profit and Loss Statement and a Statement of Assets and Liabilities for Exercise 22*C*. The merchandise on hand is worth $600.00 and the value of the unconsumed expense items is $25.00.

Exercise 24C

Close the books used to write up the transactions of Exercise 22*C*.

Exercise 25C. (Not assigned.)

Exercise 26C. Review Set

19—
Mar. 1 A. Fairview began business investing the following: Cash $8,000.00, mdse. $3,000.00, office furniture $1,000.00
Paid rent for month $100.00
2 Paid stationery and printing bills $65.00
3 Bot. of R. Kennedy, 2/10, n/30, mdse. $900.00
Gave R. Kennedy my 60-day note on acct. $400.00

Mar. 4 Sold John Adams, 2/10, n/30, mdse. $1,000.00
Recd. cash for ½ of invoice (less 2%), and a 30-day note for the balance
6 Sold mdse. for cash, $75.00
Paid salaries to date, $125.00
8 A. Fairview took home mdse. for personal use $35.00
He also drew for personal use, $150.00 in cash
10 Sold Thomas Martin, on his 2-months' note, mdse. $600.00
Donated to hospital, mdse. $15.00
Bot. office furniture for $50.00
11 Bot. of Arthur Sims, 2/10, n/30, mdse. $750.00
12 Retd. to R. Kennedy, $25.00 worth of mdse. on acct. of damaged condition, and received credit for same
13 Paid salaries to date $125.00
15 Discounted Thomas Martin's note at bank, at 6%
16 Sold Franklin Bros., 2/10, n/30, mdse. $1,000.00
17 Bot. of William Wright, 2/10, n/30, mdse. $800.00
18 Paid R. Kennedy, $300.00 on acct. of inv. of 3/3
20 Paid salaries to date, $125.00
Paid expense bills $25.00
22 Paid Wm. Wright in full for inv. of 3/17 (less 2%)
23 Franklin Bros. retd. to us merchandise amounting to $20.00, on acct. of damage
24 Franklin Bros. paid in full for inv. of 3/16 (less 2%) $960.40
Cash sales of mdse. $50.00
27 Paid salaries to date $125.00
29 Bot. property for a factory $5,000.00. (Open an account with Real Estate)
30 Sold Franklin Bros., 2/10, n/30, mdse. $500.00
31 Franklin Bros. sent us their 30-day note for inv. of 3/30
Paid collection and exchange at bank for month $1.15

1. Journalize the foregoing transactions.
2. Post the entries.
3. Take a Trial Balance.
4. Prepare a Profit and Loss Statement, and a Statement of Assets and Liabilities. Mdse. Inventory $4,000.00, unconsumed expense items, including stationery, $50.00; office furniture has depreciated 10%.
5. Close the books.

Exercise 2D

Enter the following transactions:

Jan. 2 Bot. for cash 100 bu. beans @ $2 per bu.
3 Sold for cash 10 bu. beans @ $2.20 per bu.

Jan. 4 Bot. for cash from Thomas Cox, 100 bu. wheat @ $1 per bu.
5 Sold for cash 5 bu. wheat @ $1.20 per bu.
6 Bot. from James Winston for cash 50 bu. beans @ $2 per bu.
8 Recd. from John Thomas a check for $24, payment for 10 bu. beans
9 Gave Thomas Davids a check for $50, payment for 50 bu. wheat
10 Sold Charles Williams 20 bu. wheat @ $1.20 per bu. Recd. check for amount of bill
11 Bot. from James Winston for cash 200 bu. rye @ $.50 a bu.
12 Sold Martin Ryan for cash 20 bu. rye @ $.60 a bu.
13 Recd. cash for 10 bu. rye @ $.60 a bu.
14 Paid cash for 50 bu. oats @ $.40 per bu.

Exercise 3D

Enter the following transactions:

Feb. 1 Bot. mdse. for cash $300
Paid rent of store $150
2 Bot. coal for use in store $50
Paid $10 for stationery for office use
3 Cash Sales today amounted to $25
Paid $15 for postage stamps
Paid $25 for repairing store and fixtures
4 Cash sales $50
Paid advertising bill with mdse. $10
5 Cash Sales $65
Donated $20 to charity
6 Cash Sales $75
Paid clerk hire $25
8 Cash Sales $100
Paid for cleaning store $3
Bot. mdse. for cash $50
9 Paid freight bills $20
Paid plumbing bill $15
Cash Sales $80
10 Cash Sales $70
Gave a check for $50 in payment for a bill of mdse
11 Cash Sales $50
Paid gas bill $8
13 Cash Sales $300
Paid telephone bill $10
Paid clerk's salary $25
Paid bookkeeper $12

Exercise 4D

Enter the following transactions:

Mar. 1 Joseph Fay began the flour and grain business, investing cash $8,000
2 Bot. from William Dempsey for cash, 100 bbl. flour @ $5 per bbl.
Bot. from Frank Carter 200 bu. wheat @ $1 per bu.
Paid rent of store $150
3 Cash sales today amounted to $25
Proprietor took 2 bbl. flour for private use $10
4 Cash Sales $50
Paid for repairs to store $10
5 Gave Alexander Lord a check for 200 bu. oats @ $.40 per bu.
Cash Sales $60
6 Paid Clerk hire $12
Cash Sales $100
Proprietor withdrew for private use $30
8 Bot. from Henry Miller for cash 100 bu. beans @ $2 per bu.
Cash Sales $90
Paid for advertising $15
9 Cash Sales $125
10 Proprietor made an additional investment of $2,000
Cash Sales $100
11 Bot. from Jacob Frank for cash 100 bbl. flour @ $5
Cash Sales $70
12 Cash Sales $150
Donated 5 bbl. flour, $25, to a Church Fair
13 Cash Sales $125
Paid clerk hire $12
Paid bookkeeper $12
Proprietor withdrew for private use $30

Exercise 5D

Prepare a Trial Balance of Totals of all Ledger accounts resulting from Exercise 4*D*.

Exercise 6D

Enter the following transactions:

May 1 Joseph Brown begins the coal and wood business, investing cash $8,000
2 Bot. of Lehigh Coal Co. for cash 150 tons of coal @ $5
Bot. of Erie Lumber Co. 100 loads of wood @ $2.50. Paid cash
3 Paid rent for office and yard, cash $75
4 Sold to James Wilson for cash 10 tons of coal @ $6.75
5 Sold to Henry Austin on a/c 15 loads of wood @ $3.50
6 Paid the yardmen week's wages, cash $30

Mar. 6 Paid clerk, cash $12
8 Recd. of Henry Austin cash on a/c $25
9 Sold Black & White on a/c 20 tons of coal @ $6.25
10 Sold to James Wilson on a/c 50 tons of coal @ $6.50
11 Sold Henry Austin on a/c 50 loads of wood @ $3.25
Recd. of Henry Austin cash on a/c $27.50
12 Bot. of Erie Lumber Co. for cash 50 loads of wood @ $2.50
13 Recd. of James Wilson in full of a/c $325
Paid week's wages to yardmen, cash $30
Paid clerk $12 in cash
15 Recd. of Black & White, on a/c, $60 in cash
16 Recd. of Henry Austin on a/c $100 in cash
17 Paid for stamps and stationery $5 in cash

Exercise 7D

Enter the following transactions:

June 1 Frank Curtis began the carpet business, investing cash $10,000
2 Bot. of Daniel Gray on acct. 500 yd. Brussels carpet @ $1 a yd.
3 Bot. of James Christy on acct. 25 rugs @ $20
4 Paid rent of store $100
5 Bot. of William Myers on a/c 100 yd. linoleum @ $.60
6 Sold for cash to John Mayo 5 rugs @ $25
Paid clerk's salary, $15
8 Paid Daniel Gray $250 on a/c
9 Sold to George Devlin for cash, 50 yd. Brussels carpet @ $1.20
10 Paid James Christy $200 on acct.
11 Bot. from John Winter 500 yd. matting @ $.25. Paid him $75. Balance on acct.
12 Paid Daniel Gray balance of bill of 2nd
13 Sold William Green for cash 10 yd. linoleum @ $.80
Paid clerk's salary, $15
Proprietor withdrew for private use $25
15 Paid James Christy balance of bill of 3d
16 Paid William Myers for his bill of 5th
17 Sold for cash to James Todd 25 yd. matting @ $.25
18 Paid John Winter balance of acct. of 11th
19 Bot. from Straus & Co. on acct. 1,000 yd. of lining @ $.08
20 Sold Henry Cunning for cash 3 rugs @ $25
Paid Straus & Co.'s bill of 19th
Paid clerk's salary, $15

Exercise 8D

Enter the following transactions and prepare a Trial Balance of Totals:

Aug. 1 David Foster began the ribbon and lace business with cash $10,000
2 Paid rent of loft $150
3 Bot. of James Cooper on acct. 500 yd. No. 2 ribbon @ 10c., and 600 yd. No. 5 lace @ 12c.
4 Bot. of Thomas Blake 1,000 yd. No. 4 ribbon @ 20c. Paid cash $100, balance on acct.
5 Sold Herman Singer on acct. 100 yd. No. 2 ribbon @ 15c.
6 Paid clerks' salaries, $25
8 Bot. of Frank Cusack on acct. 450 yd. No. 9 lace @ 30c.
9 Paid James Cooper for bill of 3d in cash
10 Bot. of John Mullin on acct. 800 yd. No. 6 ribbon @ 15c.
11 Sold Abraham Conklin on acct. 100 yd. No. 5 lace @ 15c.
12 Proprietor withdrew for private use $50
13 Paid clerks' salaries, $25
15 Paid for store fixtures $50
16 Bot. of James Cooper 1,200 yd. No. 10 ribbon @ 18c. Paid cash $75, balance on acct.
17 Paid balance of bill of 4th
18 Sold Henry Davis on acct. 200 yd. No. 10 ribbon @ 25c.
19 Recd. cash from Herman Singer for bill of 5th
20 Paid clerks' salaries, $25
22 Gave Frank Cusack $75, part payment of bill of 8th
23 Bot. of Thomas Little on a/c 600 yd. No. 3 lace @ 10c.
24 Recd. from Abraham Conklin $15 in cash payment for bill of 11th
25 Bot. 500 2-cent postage stamps
26 Sold to James O'Neill on acct. 300 yd. No. 10 ribbon @ 25c. Recd. $25 in cash, balance on acct.
27 Paid clerks' salaries, $25
29 Paid John Mullin $50 on acct. of bill of 10th
30 Paid James Cooper balance of bill of 16th
31 Recd. from Henry Davis $50 cash, payment of bill of 18th

Exercise 9D

Journalize transactions given in Exercise 6*D*.

Exercise 10D

Post the entries resulting from journalizing Exercise 9*D*, and take a Trial Balance of Totals.

Exercise 11D

Journalize transactions of Exercise 7*D* and post the resulting Journal entries.

Exercise 12D

Journalize and post the following transactions:

Mar.	1	James Madden began business with $2,000 cash and $1,500 mdse.
	2	Bot. a bill of mdse. amounting to $800 on his 10-day note.
	3	Sold mdse. to David Sands on his 30-day note $150
	4	Paid rent of store $100
	5	Bot. bill of mdse. from John Kelly $500. Paid $200. Gave him a 10-day note for the balance
	6	Paid clerk's salary, $15
	8	Sold mdse. to Benjamin Adams $200. He paid cash $75 and gave a 10-day note for the balance.
	9	Bot. mdse. from Frank Fisk on acct. $1,000
	10	Sold mdse to John Phillips $250 on acct.
	11	Sold mdse. to Charles Carpenter $90 on acct.
	12	Paid my note of the 2nd in cash
	13	Paid clerk's salary in cash, $15
	15	Paid my note of the 5th in cash
	16	Sold mdse. to Thomas Grant $500. Recd. cash $200 and a 5-day note for the balance
	17	Proprietor withdrew mdse. for private use $20
	18	Recd. from Benjamin Adams payment on the note
	19	Gave a 30-day note to Frank Fisk in payment of bill of 9th
	20	Recd. 15-day note from John Phillips in payment of bill of 10th Paid clerk's salary, $15
	22	Recd. cash from Charles Carpenter in payment of bill of 11th
	23	Recd. cash from Thomas Grant in payment of note of 16th

Exercise 13D

Journalize and post the following transactions:

Nov.	1	Richard Stone began the furniture business at No. 150 Broadway, investing cash, $5,000.00 and mdse. inventoried at $4,000.00
	2	Paid rent of store $100.00
	3	Bot. of James Townsend on acct.: 10 Library Tables @ $20.00 15 Dining Tables @ 16.00
	4	Sold John Lane on acct.: 1 Writing Desk $30.00 1 Bookcase 25.00 1 Filing Cabinet 15.00
	5	Paid James Townsend $100.00 on acct.

Nov. 6 Sold George Lindsay on acct.:

1 Couch	$40.00
1 Oak Hall Stand	25.00
1 Dining Table	20.00
6 Dining Chairs	18.00

Recd. $25.00 from John Lane on acct.
Paid clerk's salary, $15.00

8 Recd. from John Lane his 10-day note for balance of bill of 4th

9 Sold Martin Kane: $40.00 cash, balance on acct.:

1 Music Cabinet	$15.00
1 Library Table	25.00
6 Library Chairs	30.00

10 Gave James Townsend my 15-day note for balance of bill of 3d

11 Proprietor withdrew $50.00 for private use.

Sold George Hall for cash:

1 Complete Dining Room Set	$75.00

12 Recd. from Martin Kane, his 30-day note for balance of bill of 9th
Proprietor made an additional investment: Cash $1,000.00

13 Paid clerk's salary, $15.00
Paid for cleaning store $3.00
Paid for coal $25.00

Sold John Thomas on his 10-day note:

2 Office Chairs	@ $12.50
1 Office Desk	25.00

15 Bot. from James Townsend, on my 30-day note:

5 Oak Sideboards	@ $50.00
6 Cedar Chests	@ 10.00

16 Sold to William Black for cash:

1 Brass Bedstead	$30.00
1 Mattress	15.00
1 Wardrobe	20.00

Sold Thomas Jones on his 10-day note:

1 Complete Dining Room Set	$75.00

17 Sold Nathan Levy:

1 Parlor Lamp	$12.00
1 Brass Bedstead	30.00
1 Mattress	15.00
1 Dressing Table	30.00

Recd. $50.00 in cash; balance on acct.

18 Recd. cash $45.00 from John Lane in payment of his note of 8th

Nov. 18	Bot. from Morris & Co. on my 10-day note:		
	10 Hall Settles	@ $14.00	
	25 Fancy Rockers	@ 8.00	
19	Sold Thomas Lund for cash:		
	1 Bookcase	$25.00	
	1 Library Table	25.00	
	Recd. from George Lindsay, $50.00 in cash and his 10-day note for balance of bill of 6th		
20	Sold Christopher Carr on his 10-day note:		
	1 Brass Bedstead	$30.00	
	1 Mattress	15.00	
	Paid clerk's salary, $15.00		
	Paid for postage stamps $3.00		
22	Bot. from Morris & Co.:		
	15 Mirrors	@ $20.00	
	10 Parlor Lamps	@ 8.00	
	Paid $100.00 in cash, balance on acct.		
23	Sold James Albert for cash:		
	1 Mirror	$25.00	
	1 Parlor Lamp	10.00	
	John Thomas paid his note of 13th in cash $50.00		
24	Sold Henry Hess:		
	2 Mirrors	@ $25.00	
	1 Lamp	10.00	
	1 Writing Desk	15.00	
	Recd. cash $30.00; balance on acct.		
25	Paid note due James Townsend today $340.00		
26	Sold John Mills for cash:		
	6 Dining Chairs	@ $ 4.00	
	1 Dining Table	20.00	
	Thomas Jones paid his note of 16th in cash $75.00		
27	Paid clerk's salary $15.00		
	Proprietor withdrew for private use $50.00		
29	Paid Morris & Co. note of 18th in cash $340.00		
	George Lindsay paid his note of 19th due today $53.00		
30	Bot. of William Johnson		
	20 White Iron Bedsteads	@ $5.50	
	Paid $75.00 cash, balance on acct.		
	Christopher Carr paid his note of 20th due today $45.00		

Exercise 14D

Prepare a Trial Balance from Exercise 12*D*.

Exercise 15D

Prepare a Profit and Loss Statement for Mr. Madden, mdse. inv. $3,000.00. Exercise 12*D*.

Exercise 16D

Prepare a Statement of Assets and Liabilities for Mr. Madden, Exercise 12*D*.

Exercise 17D

Journalize the following transactions:

Feb. 1 Wm. A. Moore began business, investing cash $1,800.00 and mdse. as follows: 1,000 bu. barley @ $.75, 100 bu. oats @ $.35
2 Paid E. Burke cash for rent of store $35.00
4 Bot. of Henry Elk 2/10, n/30, 500 bu. rye @ $.60
6 Sold John Smith for cash 100 bu. barley @ $1.00 and 100 bu. oats @ $.50
7 Paid $5.00 for repairs in store
8 Paid Henry Elk cash for invoice of 4th inst., less 2%
9 Bot. of J. Hastings 2/10, n/30, 1,000 bu. oats @ $.35, 1,000 bu. barley @ $.75
10 Sold M. Green on acct. 1500 bu. barley @ $1.10
12 Bot. of Geo. Daniels 2/10, n/30, 300 bu. clover seed @ $4.00
14 Paid J. Hastings cash for invoice of 9th inst., less 2%
16 Bot. of W. Hayes 2/10, n/10, 500 bu. rye @ $.60
Sold Frank Walsh for cash 1,000 bu. rye @ $.75
18 Bot. of J. Hastings 2/10, n/30, 200 bu. rye @ $.60
19 Paid Geo. Daniels for invoice of 12th inst., less 2%
20 Bot. of Henry Elk 2/10, n/30, 400 bu. rye @ $.60
21 Wm. A. Moore withdrew cash for personal use $25.00
23 Paid J. Hastings cash for invoice of 18th inst., less 2%
24 Sold John J. Smith for cash 400 bu. barley @ $1.00 and 200 bu. clover seed @ $5.00
25 Paid W. Hayes cash for invoice of 16th inst., less 2%
28 Paid sundry expenses $86.00

Exercise 18D

Journalize the following transactions:

Jan. 2 Student began business this day, investing cash $8,500.00
2 Paid rent of store $50.00
2 Bot. of R. Hopkins for cash, 3,000 bu. corn @ $.50, 2,000 bu. wheat @ $1.00, 400 bbls. flour @ $6.00
2 Sold Emerson Bros. 2/10, n/30, 2,000 bu. corn @ $.60
3 Sold J. Young 2/10, n/30, 200 bbls. flour @ $7.80
5 Recd. cash from Emerson Bros. for invoice of 2nd inst., less discount
6 Sold C. Fuller 2/10, n/30, 2,000 bu. wheat @ $1.10

Jan. 8 J. Young paid invoice of 3rd inst., less 2% cash, $1,528.80
10 C. Fuller paid us cash on acct. $980.00, recd. credit for $1,000.00
12 Sold M. Mullin 2/10, n/30, 150 bbls. flour @ $10.00, 1,000 bu. corn @ $.80
13 Bot. of R. Hopkins on acct. 4,000 bu. corn @ $.50, 2,000 bu wheat @ $1.00 and 500 bbls. flour @ $6.00
15 Sold Emerson Bros. 2/10, n/30, 1,000 bu. corn @ $.60, 600 bu. wheat @ $2.00
16 M. Mullin settled for invoice of 12th inst.
17 Sold S. Green 2/10, n/30, 1,000 bu. corn @ $.75, 100 bu. wheat @ $2.00
18 Sold E. Carpenter 2/10, n/30, 1,000 bu. wheat @ $2.10
19 Recd. cash of Emerson Bros. for invoice of 15th inst., less discount.
20 Sold C. Fuller 2/10, n/30, 100 bu. wheat @ $2.00 and 200 bbls. flour @ $8.00
22 Recd. cash of E. Carpenter for invoice of 18th inst.
26 C. Fuller paid invoice of the 20th inst., less 2% $1,764.00
30 Paid sundry expenses $114.00

Exercise 19D

Journalize the following transactions:

May 1 Charles Duffy began the Grocery Business this day with cash $2,000.00 and mdse. $1,000.00
2 Bot. from Daniels & Co., 50 crates of eggs, 1,500 doz. @ 20c. Gave him $100.00 and a note at 30 days for balance
3 Bot. from William Beck, 50 bbls. flour @ $5.00. Gave him my 10-day note in payment
4 Sold Alexander Blum on his 10-day note 10 bbls. flour @ $6.00
5 Sold Jacob Claus on his 30-day note 5 crates of eggs, 150 doz. @ 25c.
6 Bot. from Henry Hall 100 bbls. salt @ $1.00 per bbl. Gave him a 10-day note in payment
8 Prepaid my note of 2nd. Discount 6%
9 Alexander Blum prepaid his note of 4th. Discount 6%
10 Discounted our own 30-day note at bank. Face of note $1,000.00. Discount 6%. Recd. credit for proceeds
11 Prepaid my note of 6th. Discount 6%
12 Discounted Jacob Claus' note of 5th at bank. Discount 6%. Recd. credit for proceeds
13 Paid clerks' salaries $50.00
15 Sold Arthur Nathan on his 10-day note 10 bbls. flour @ $6.00
16 Sold Morris Kirk on his 30-day note, 10 crates of eggs, 300 dozen @ 25c.

May 17 Bot. from Joseph Osborne on our 10-day note, 50 tubs butter, 2,000 lbs. @ 25c.
18 Arthur Nathan prepaid his note of 15th. Discount 6%
19 Sold to James Cleary for cash 3 tubs butter, 120 lbs. @ 30c.
20 Discounted Morris Kirk's note of 16th at bank. Discount 6%. Recd. credit for proceeds
Paid clerks' salaries $50.00
Paid freight bill $50.00

Exercise 20D

Journalize the following transactions:

Apr. 1 James Tobin began the Gas and Electric Light Fixture Business with cash $1,000.00 and mdse. $4,500.00
Paid rent of store $50.00
2 Bot. from Thomas Morse 2/10, n/30, 50 brass library lamps @ $10.00
3 Bot. from James Dunlap on our 10-day note 25 white enamel kitchen lamps @ $1.50
4 Sold Max Bernstein 2/10, n/30, 5 brass library lamps @ $12
5 Bot. 1 doz. bronze parlor chandeliers @ $40.00, from Joseph Lapp on our 10-day note
6 Paid salesmen's salaries $30.00
Proprietor withdrew for private use $50.00
8 Sold Thomas Jacobs on his 10-day note 2 bronze parlor chandeliers @ $50.00
9 The proprietor discounted his own 60-day note at bank. Face of note $500.00. Rate of discount 6%. Recd. credit for proceeds
10 Paid Thomas Morse bill of 2nd, less 2% discount
11 Sold Martin Bros. on their 30-day note 2 bronze parlor chandeliers @ $50.00
12 Max Bernstein paid his bill of 4th, less 2%
13 Paid James Dunlap our note of the 3rd due today
Paid salesmen's salaries $30.00
Proprietor withdrew for private use $50.00
15 Paid our note of 5th due today
16 Discounted Thomas Jacob's note at Union Bank. Discount 6%. Recd. credit for proceeds
17 Sold James Sullivan 2/10, n/30, 5 kitchen lamps @ $2.50
18 Sold Thomas & Co. 2/10, n/30, 6 hall brackets @ $12.00
19 Discounted Martin Bros'. note of 11th at bank. Rate of discount 6%. Recd. credit for proceeds
20 Bought from Donaldson & Co. 2/10, n/60, 2 doz. dining room chandeliers @ $20.00 each
Paid salesmen's salaries $30.00
Proprietor withdrew for private use $50.00

Apr. 22 Sold Jenks & Co. on their 10-day note 10 brass library lamps @ $12.00
23 Proprietor sent home 2 bronze parlor chandeliers @ $40.00 for private use
24 Proprietor made an additional investment of $2,000.00
25 James Sullivan paid his bill of 17th, less 2%
27 Paid salesmen's salaries $30.00
Proprietor withdrew for private use $50.00
29 Paid Donaldson & Co. my bill of 20th, less 2%
30 Paid electric light bill $15.00
Paid telephone bill $10.00
Discounted Jenks & Co.'s note of 22nd at bank. Discount 3%. Recd. credit for proceeds

Exercise 21D

Journalize the following transactions:

Mar. 1 John Brill began the Jobbing business this day, investing cash $5,000.00 and $1,000.00 mdse
1 Paid rent, $75.00
2 Bought from Jackson and Co., 5/10, n/30, 5 doz. waists @ $10.00
3 Sold to William Matthews, 5/10, n/30, 6 dresses @ $10.00
4 Retd. to Jackson & Co.. ½ doz. of the waists purchased on 2nd and recd. credit for same
5 Purchased 4 mirrors @ $15.00 for use in store; paid cash for them
6 Paid for stationery and printing, $15.00
6 Sold Arthur Peters 6/10, n/30, 10 dresses @ $12.00
8 Sold William Roberts 6/10, n/30, 3 doz. skirts @ $25.00
9 Wm. Matthews retd. one of dresses purchased by him on 3rd inst. and recd. credit for $10.00
10 One of the mirrors purchased on 5th was found defective. Retd. it and recd. check for $15.00 in this morning's mail
11 Paid Jackson & Co. for bill of 2nd, less 5%
12 Recd. from William Matthews his check for bill of 3rd, less 6%
13 Sold 6 waists for cash @ $3.00
15 One of waists sold on 13th was retd. and customer recd. back her money
15 Paid salaries to date $80.00
16 Bot. 4 doz. skirts @ $24.00 from Hadley & Co. for cash
17 Sold Macey & Co., 6/10, n/30, 2 doz. shirtwaists @ $15.00
18 Retd. ½ doz. of skirts purchased from Hadley & Co. on 16th and recd. check for $12.00
19 Sold F. Spear 15 dresses @ $6.00. Recd. $50.00 cash, balance on acct.

Exercise 22D

Journalize Exercise 21*D*, employing Mdse. Purchases and Mdse. Sales a/cs. Post and take a Trial Balance.

Exercise 23D

Prepare a Profit and Loss Statement and a Statement of Assets and Liabilities for Exercise 22*D*. Value of Mdse. on hand $900.00 and value of unconsumed expense items is $35.00.

Exercise 24D

Close the books and write up the transactions of Exercise 22*D*.

Exercise 25D. (Not assigned.)

Exercise 26D

1. Journalize the following transactions:

Mar. 1 Phillip Lane began the Dress Manufacturing Business this day, at 131 West 25th Street, investing: Cash $5,000.00, mdse. valued at $1,000.00

2 Paid rent of loft $300.00 for month of March. Installed machinery at a cost of $500.00 cash

3 Bot. from John Kahn, 2/10, n/60, 10 pcs. No. 62 taffeta, 600 yds. @ $1.10

Bot. from Roberts & Walker, 8/10, 7 pcs. No. 15 chiffon, 350 yds. @ $.62½, 5 pcs. No. 100 net, 240 yds. @ $.37½

4 Bot. from Duncan & Co. 5/10, 6 pcs. No. 5 Lining, 360 yds. @ $.11

Bot. from Standard Thread Co. 2/10, n/30, 100 boxes No. 45 mercerized thread @ $.50

Bot. from M. Levy 6/10, 50 boxes No. 7 pins @ 50c.

5 Paid manufacturing salaries per pay roll list $250.00

Paid office salaries $30.00

Proprietor withdrew for private use $50.00

8 Sold Johnson & Bros. 10/10, 12 No. 945 dresses @ $6.75

Paid Duncan & Co.'s bill of 4th, less 5%

9 Sold Jones, Black & Co. 5/10, 8 No. 916 dresses @ $10.00, 12 No. 945 dresses @ $6.75

10 Sold John Stevens, Net Job, 24 dresses @ $3.75

Sold Thompson & Co. 6/10, 8 No. 953 dresses @ $16.75

Paid M. Levy for bill of 5th, less 6%

11 Sold Bryant Cloak & Suit Co. 5/10, n/30, 3 doz. No. 900 dresses @ $3.75 each

12 Retd. to John Kahn: 2 pcs. No. 62 taffeta, 120 yds @ $1.10 and recd. credit for same. Sent them a check for balance of invoice of 3rd, less 2%

Mar. 13 Paid Standard Thread Co.'s bill of 4th, less 2%
Paid manufacturing salaries per pay roll list $250.00
Paid office salaries $30.00
Paid salesman $30.00
Proprietor withdrew for private use $50.00
15 Recd. Jones, Black & Co.'s 30-day note in settlement of bill of 9th
15 Bot. from Wells & Co. for cash stationery for office use $50.00
16 Sold Johnson Bros. 10/10, 6 No. 945 dresses @ $6.75
17 Sold Ward & Connolly, 8/10, 12 No. 945 dresses @ $6.75
Bot. from the Mosler Safe Co. for cash, 1 office safe $60.00
18 Johnson Bros. paid their bill of 8th, less 10%
Recd. from Thompson & Co. cash for bill of 10th, less 6%
19 Recd. from John Stevens check for bill of 10th
Discounted at bank Jones, Black & Co.'s note of 15th. Discount 6%
20 Paid manufacturing salaries per pay roll $250.00
Paid office salaries $30.00
Paid salesman $30.00
Proprietor withdrew for private use $50.00
22 Recd. from Bryant Cloak & Suit Co. check for bill of 11th, less 5%, also following order to be filled at usual terms: 12 No. 910 dresses @ $5.50
23 Sold Kennedy & Richards 8/10, 12 No. 916 dresses @ $10.00, 12 No. 953 dresses @ $16.75, 6 No. 900 dresses @ $3.75
24 Bot. from West & Co. 10 pcs. No. 150 messaline 500 yds. @ 75c.
25 Recd. from Johnson & Bros. check for their bill of 16th, less 10%
26 Recd. from Ward & Connolly, check for their bill of 17th, less 8%
Discounted the firm's 60-day note at bank, face of note $1,000.00, rate of discount 6%
27 Kennedy & Richards retd. 3 No. 916 dresses purchased on 23rd and recd. for same credit for $30.00
Paid manufacturing salaries per pay roll $250.00
Paid office salaries $30.00
Paid salesman $30.00
Proprietor withdrew $50.00
29 Sold Bedford Cloak & Suit Co. 5/10, n/30, 12 No. 916 dresses @ $10.00
Sold Thompson & Co. 10/10, 12 No. 916 dresses @ $10.00
30 Part of the stationery purchased by us from Wells & Co. on 15th was found to be of inferior grade; Wells & Co. agreed to take unsatisfactory part back; we returned it yesterday and received check for $15.00 from them in this morning's mail
31 Paid telephone bill $15.00
Paid advertising bill $25.00
Paid electric light bill $25.00

2. Post the Journal entries resulting from the foregoing transactions.
3. Take a Trial Balance.
4. Prepare a Statement of Profit and Loss and a Statement of Assets and Liabilities. The value of the unsold merchandise is $1,500.00, unconsumed expense items are worth $20.00, office furniture has depreciated 10%, and machinery has depreciated 10%
5. Close the books.

Special Exercises

1. Prepare a Trial Balance, a Statement of Assets and Liabilities and a Profit and Loss Statement from the following data: debit balances: Cash $6,300.00, Accts. Rec. $36,850.00, Expense $250.00, Salaries $4,500.00, Notes Rec. $3,000.00, Furniture and Fixtures $1,200.00, Real Estate $8,000.00, Mdse. Inventory, 1/1/19–, $5,500.00 Purchases $48,650.00, Discount on Sales, $1,045.50, Discount on Notes $175.00, Real Estate Repairs $425.00, Rent $3,600.00; credit balances: Accounts Payable $32,150.00, Notes Payable $2,500.00, Discount on Purchases $973.00, Sales $55,275.00, Samuel Lane Quincy, Cap. $28,597.50.

Inventories, 12/31/19–: Mdse. $6,350.00; Real Estate $7,500.00; Expense $200.00; Furniture and Fixtures $1,000.00.

2. The following balances were taken from the books of Frank E. Small, on December 31, 19–, one year after the commencement of his business: debit balances: Cash $4,500.00, Accts. Rec. $24,650.00, Expense $850.00, Notes Rec. $2,000.00, Salaries $3,100 00, Advertising $2,200.00, Furniture and Fixtures $900.00, Real Estate $6,000.00, Mdse. Inventory, 1/1/19, $1,300.00, Purchases $35,000.00, Discount on Sales $716.00, Discount on Notes $150.00, Real Estate Repairs $350.00, Rent $2,400.00; credit balances: Discount on Purchases, $700.00, Sales $37,800.00, Accounts Payable $18,950.00, Notes Payable $3,000.00, Frank E. Small, Cap. $23,666.00.

Inventories, 12/31/19–: Mdse. $3,500.00, Real Estate $6,000.00; Expense $150.00, Furniture and Fixtures $800.00. Prepare a Trial Balance, a Statement of Assets and Liabilities and a Profit and Loss Statement.

3. Solve Problem 1, above, if, in addition to the information given, these liability inventories existed: unpaid expense bills not entered in books $135.00, salaries accrued not yet due $275.00.

4. Solve Problem 2, above, taking into consideration the following: (*a*) expense bills unpaid and not entered $27.50; (*b*) salaries accrued not yet due $225.00; (*c*) interest on deposits allowed and credited by bank, not yet entered in our books, $4.25.

PART II

INTERMEDIATE BOOKKEEPING

A study of Part One served to familiarize the student with the basic principles of double entry bookkeeping. It is the specific purpose of Part Two to point out how the practical results attained in the earlier division may be secured much more efficiently by the employment of special books of original entry.

The bookkeeping discussed in Part One of this book has been advisedly called Elementary Bookkeeping. Before undertaking the study of what is undoubtedly advanced bookkeeping, we shall give our attention to certain topics that, for the want of a better term, we may call Intermediate Bookkeeping. The student is cautioned, however, against associating with the term as herein employed any definite divisions of the subject, because the sections made by us are solely for the purpose of convenience and serve no other end.

It may be well to state at the outset that no matter what form of books is employed, and regardless of what forms and rulings are used by any particular business, the transactions will necessarily consist of purchases and sales, investments and withdrawals, etc. The difference is to be sought in the method of recording the transactions, and not in the nature of the transactions themselves. We are about to show how the business dealings which constituted the subject matter of Part One may be recorded more efficiently by the use of special books, now almost invariably a part of the bookkeeping system of every well regulated concern.

27. The Sales Book

Let us assume that a portion of the transactions for a single day consisted of the following sales:

Philip Long,	2/10, n/30,	$960.00
R. Brown,	on acct.,	2,225.00
Sumner & Sons,	2/10, n/30,	1,950.00

As a result of the foregoing transactions, the following abbreviated Journal entries might result:

	Nov. 15, 19—		
Philip Long		$960.00	
Mdse. Sales			$960.00
	15		
R. Brown		$2,225.00	
Mdse. Sales			$2,225.00
	15		
Sumner & Sons		$1,950.00	
Mdse. Sales			$1,950.00

Can you suggest any method for making unnecessary the repetition of the credit "Mdse. Sales," which appears for each transaction? Possibly the use of ditto (") marks occurs to you as a solution. Or perhaps you feel that certain pages of the Journal might be reserved exclusively for sales, and that the reservation might be indicated by some appropriate heading. If this is the method which you have in mind, it is quite along the lines employed by those who have devised the modern Sales Book, or Sales Journal as it is sometimes called.

The Journal entries shown above, when recorded in the Sales Book, with their proper explanations, appear as follows:

L.F.	Sales, Nov. 15 19—		Price.		Extension.		Amount.	
	Philip Long	2/10, n/30						
		100 bbls. flour	9	00	900	00		
		50 bu. wheat	1	20	60	00	960	00
		15						
	R. Brown	On acct.						
		100 bbls. flour	9	00	900	00		
		200 bu. wheat	1	25	250	00		
		1,000 bu. oats		75	750	00		
		100 bbls. apples	3	25	325	00	2,225	00
		15						
	Sumner & Sons	2/10, n/30						
		1,000 bu. oats		75	750	00		
		1,000 bu. wheat	1	20	1,200	00	1,950	00

The foregoing entries, and the book in which they appear, will be made clear by means of a few

Comments.—(*a*) Carefully study the arrangement of the Sales Book shown above. Observe the position of the date, the customer's name, terms, the individual items, the unit prices, the total or extension of each item, and the total amount of the invoice. But do not lose sight of the fact that this book is a type form, which, in actual practice, is frequently modified.

(*b*) It must be remembered that the Sales Book or Sales Journal takes the place of the ordinary Journal for a certain class of transactions, namely, sales. For this class of dealings, therefore, the Journal will no longer be employed. The old Journal, as we learned in Part One,

indicated the debits and credits resulting from each transaction. Though this indication is not quite as clear in the foregoing Sales Book entries, the result in the Ledger must, nevertheless, be the same as if the Journal had been used. Hence, on November 15, Philip Long's account must be charged with $960.00 and the Merchandise Sales account must be credited for the same amount. A similar procedure, or posting, is necessary in the case of every other item which appears in the Sales Book.

(*c*) When the account of Philip Long is debited, the Ledger page of his account is placed in the L. F. column alongside of his name, to "check" it. This is analogous to what was done when a similar posting was made from the Journal. The initial "S" is substituted for "J" in the Ledger account, to show that the posting was made from the Sales Book instead of from the Journal.

(*d*) Other points in connection with the Sales Book must be reserved for another illustration.

Let us assume that the sales for an entire month resulted in the following entries:

Sales, Jan. 3, 19—

	L.F.		Price.		Extension.		Amount.	
		T. M. Hopkins, on acct.						
		20 bbls. flour	9	00	180	00		
		50 bu. wheat	1	10	55	00		
		100 bu. oats		40	40	00	275	00
		5						
		C. R. Rover & Co., 2/10, n/30						
		1000 bu. wheat	1	08			1,080	00
		7						
		H. B. Burr & Sons, 30 days net						
		100 bu. wheat	1	11	111	00		
		50 bu. oats		44	22	00	133	00
		24						
		T. M. Hopkins, on acct.						
		50 bbls. flour	9	00	450	00		
		1000 bu. oats		41	410	00	860	00
		30						
		Franklin & Co. on acct.						
		500 bu. wheat	1	12			560	00

After posting the foregoing sales to their respective Ledger accounts, the indication of postings would appear in the L. F. column, opposite each customer's name. But how shall the posting to the credit side of Merchandise Sales account be indicated? Instead of crediting the Sales account in the Ledger for each individual sale, the modern bookkeeper saves himself considerable work by crediting this account for the *total* of the sales, once each month. After posting this total, or closing the Sales Book, it appears as follows:

Sales, Jan. 3, 19—

L.F.		Price		Extension		Amount	
7	T. M. Hopkins, on acct.						
	20 bbls. flour	9	00	180	00		
	50 bu. wheat	1	10	55	00		
	100 bu. oats		40	40	00	275	00
	5						
9	C. R. Rover & Co., 2/10, n/30						
	1000 bu. wheat	1	08			1,080	00
	7						
13	H. B. Burr & Sons, 30 days net						
	100 bu. wheat	1	11	111	00		
	50 bu. oats		44	22	00	133	00
	24						
7	T. M. Hopkins, on acct.						
	50 bbls. flour	9	00	450	00		
	1000 bu. oats		41	410	00	860	00
	30						
11	Franklin & Co. on acct.						
	500 bu. wheat	1	12			560	00
5	Mdse. Sales, Cr., total sales					2,908	00

The student is now in a postion to appreciate the fact that the Sales Book not only makes possible the segregating of all similar items in one book, but also saves considerable time in that it permits of curtailing some of the writing required by formal Journal entries. It is also a great labor-saving device due to the fact that instead of having to post to the credit side of the Mdse. Sales account for each trans-

action, the total of all the sales for an entire month may be posted as a single item.

Questions

1. What is the function of the Sales Book?
2. Why is it a Journal?
3. Is the Sales Book a book of original entry? Why?
4. How do you indicate in a customer's account where the particulars of a debit item may be found?
5. Analyze the following accounts:

(*a*) R. C. Long

19—			19—		
Sept. 5	S12	$500.00	Nov. 28	J19	$500.00
Oct. 11	[1] 18	300.00			

(*b*) E. R. Clark & Co.

19—			19—		
May 15	S8	$65.00	June 3	J7	$89.00
24	[1] 9	24.00	July 2	[1] 9	100.00
June 22	[1] 10	100.00			

Exercise 27A

Record the following transactions, employing a Journal and a Sales Book:

19—

Nov. 1 Roland Jones began business by investing cash, $5,000.00
2 Paid November rent, cash, $100.00
Bot. office furniture, $320.00, stationery and books, $19.75, postage $2.50
2 Bot. of Smith and Robbins, on acct., 500 bbls. flour @ $7.50, and 3000 bu. oats @ $.90
4 Sold T. Smith, on acct., 200 bu. oats @ $1.00 and 100 bbls. flour @ $8.25
6 Sold R. B. Bush, on acct., 300 bu. oats @ $1.50 and 150 bbls. flour @ $8.25
8 Paid clerks' salaries, cash $37.50
12 Paid Smith & Robbins, on acct., cash $2,500.00
13 Sold R. Robbins & Sons, on acct., 100 bbls. flour @ $8.40
15 Bot. of Collins & Co., on acct., 200 bbls. flour @ $7.50
Recd. of T. Smith, cash on acct., $500.00
Paid clerks' salaries, cash $37.50

[1] Initials need not be repeated.

Nov. 16 Recd. of R. B. Bush, on acct., cash $1,000.00
20 Bot. of Smith & Robbins, on acct., 2,000 bu. wheat @ $.90
Sold T. Smith, on acct., 300 bu. oats @ $1.05
22 Paid clerks' salaries, cash $37.50
24 Sold R. B. Bush, on acct., 100 bbls. flour @ $8.40 and 200 bu. oats @ $1.05
25 Mr. Jones drew cash for personal use, $50.00
26 Mr. Jones sent home for his own use, 1 bbl. flour @ $7.50 (Enter in Sales Book)
29 Sold T. Smith, on acct., 100 bbls. flour @ $8.40
Paid clerks' salaries, $37.50; sundry expense bills, $42.12
Bot. of Pitman, Jones & Co., on acct., 200 bbls. flour @ $8.00

(*a*) Post the foregoing entries and close the Sales Book.
(*b*) Take a Trial Balance.

Exercise 27B

Employing a Sales Book and a Journal, enter the following transactions:

19—
Sept. 1 H. Spencer began business by investing cash $10,000.00
2 Paid rent of store $100.00, printing and stationery bills $32.00, office furniture $200.00, signs $44.00
3 Bot. of J. Wallace, 500 bbls. flour @ $8.00, for cash
Bot. of J. Tyndall, 2/10, n/30, 300 bbls. flour @ $8.00, and 2000 bu. wheat @ $1.00
4 Bot. of M. Thackeray & Son, 2/10, n/30, 500 bbls. flour @ $8.00, and 3,000 bu. oats @ 60c.
Sold L. Irwin, 2/10, n/30, 300 bbls. flour @ $10.00 [2]
5 Sold T. Cobb on his 30-day note, 100 bbls. flour @ $10.00
6 Paid salaries of clerks, $60.00
8 Sold L. Irwin, on acct., 150 bbls. flour @ $10.00, and 500 bu. wheat @ $1.20
9 Sold W. J. Cannon, on acct., 300 bbls. flour @ $10.50, and 500 bu. oats @ 90c.
12 Gave J. Tyndall my 30-day note on acct. for $2,400.00, and paid in cash the balance of the inv. of 9/3, less 2% discount
Recd. from L. Irwin, payment in full of inv. of 9/4, less 2%
13 Paid M. Thackeray & Son, in full of inv. of 9/4, less 2%
Paid salaries of clerks, $60.00
15 Sold W. J. Cannon, 2/10, n/30, 300 bbls. flour @ $10.00
17 Recd. from L. Irwin, on acct., $1,000.00

[2] Enter all sales in the Sales Book. If a cash transaction, show the payment in the Journal. If the sale is made for a promissory note, show the receipt of the note in the Journal. Thus, personal accounts will be kept with all customers (see pages 36 and 172).

Sept. 20 Paid clerks' salaries, $60.00
Recd. from W. J. Cannon, on acct., $1,500.00
22 Discounted at bank, my 60-day note at 6%, face $1,000.00
24 Recd. from W. J. Cannon, payment in full of inv. of 9/15, less 2%
25 Bot. of W. J. Moncrieff, on acct., 500 bbls. flour @ $8.50, and 400 bu. wheat @ $1.05
26 Sold M. Mullin & Son, on their 15-day note, 200 bbls. flour @ $10.25
27 Paid clerks' salaries, $60.00
Discounted M. Mullin & Son's note at 6%
29 Proprietor drew $100.00 for private use.
30 Paid W. J. Moncrieff, on acct., $1,500.00

28. THE PURCHASE BOOK

The modern bookkeeper employs other special Journals besides the Sales Book. A very useful and important one is the so-called Purchase Journal or Purchase Book. The student will find among his Journal entries, resulting from the purchase transactions in Exercise 27*A*, page 159, the following:

	Nov.	2, 19—				
	Mdse. Purchases	On acct.	6,450	00		
	Smith & Robbins	500 bbls. flour $7.50			6,450	00
		3000 bu. oats .90				
		15				
	Mdse. Purchases	On acct.	1,500	00		
	Collins & Co.	200 bbls. flour $7.50			1,500	00
		20				
	Mdse. Purchases	On acct.	1,800	00		
	Smith & Robbins	2000 bu. wheat $.90			1,800	00
		29				
	Mdse. Purchases	On acct.	1,600	00		
	Pitman, Jones & Co.	200 bbls. flour $8.00			1,600	00

Observe the repetition of the debit to Merchandise Purchases account in each case. This writing of the debit account is analogous to the writing of the credit Merchandise Sales in the first division of this chapter. The student will readily see that a saving may be effected by employing a Purchase Book similar to the Sales Book pre-

viously discussed. The corresponding entries in the Purchase Book are as follows:

Purchases, November 2, 19-

		Price	Extension	Amount
Smith & Robbins	On account			
500 bbls. Flour		7.50	3750 00	
3000 bu. Wheat		.90	2700 00	6450 00
15				
Collins & Co.	On account			
200 bbls. Flour		7.50		1500 00
21				
Smith & Robbins	On account			
2000 bu. Wheat		.90		1800 00
28				
Pitman, Jones & Co.	On account			
200 bbls. Flour		8.00		1600 00

The saving effected in the amount of writing necessary, and in posting, is exactly the same as in the case of the Sales Book. This statement will appear clearer from the following illustration of the Purchase Book, after the same has been closed for the month:

Purchases, November 2, 19-

			Price	Extension	Amount
8	Smith & Robbins	On acct.			
	500 bbls. Flour		7.50	3750 00	
	3000 bu. Wheat		.90	2700 00	6450 00
	15				
11	Collins & Co.	On acct.			
	200 bbls. Flour		7.50		1500 00
	21				
8	Smith & Robbins	On acct.			
	2000 bu. Wheat		.90		1800 00
	28				
12	Pitman, Jones & Co.	On acct.			
	200 bbls. Flour		8.00		1600 00
3	Mdse. Purchases Dr.	Total Purchases			11350 00

It is necessary for the student to understand that the posting from the Purchase Book is to the credit side of each seller's account in the Ledger, where the initial " P " is substituted for " J ", and to the debit side of the Merchandise Purchases account. The result, therefore, is exactly the same as it would have been had the entries been made in the ordinary Journal.

Questions

1. What is the function of the Purchase Book?
2. Why is it proper to call this book a Purchase Journal?
3. How do you indicate, in a creditor's account, the origin of the items appearing on the credit side?
4. Prove that the postings from the Purchase Book result in equal debits and credits.
5. Analyze the following accounts:

(*a*) Hamilton, Brown & Co.

			19—		
			Nov. 8	P21	$2,500.00
			Dec. 24	24	1,850.00

(*b*) Crosby Trading Co.

19—			19—		
Nov. 10	J20	$1,500.00	Oct. 31	P19	$2,300.00
Dec. 31	27	800.00	Dec. 6	22	1,975.00

Exercise 28A

Employing a Purchase Book, a Sales Book and a Journal, enter the following transactions:

19—

Mar. 1 T. Jones began business and invested the following: cash $5,000.00, mdse. $2,000.00, office furniture $900.00
Paid rent $100.00
2 Paid stationery and printing bills $75.00
3 Bot. of A. Elkins, 2/10, n/30, 1250 bu. wheat @ 80c.
Gave A. Elkins my 2-mos. note on acct., $500.00
4 Discounted my 4-mos. note at bank at 5%, face $2,000.00
6 Sold H. Smith, 2/10, n/30, 100 bbls. flour @ $10.00, and 500 bu. wheat @ $1.00
Recd. from H. Smith, cash for ⅓ of inv., $490.00, and 30-day note for $250.00 on acct.

Mar. 6 Sold mdse. for cash, $50.00
Paid salaries $100.00
8 T. Jones drew for personal use, $100.00
9 Sold to H. Williams on 30-day note, 500 bu. wheat @ $1.00
Sold to H. Beecher, 2/10, n/30, 50 bbls. flour @ $10.00
Donated to hospital, mdse. $10.00
12 Paid for office furniture, $100.00
Retd. to A. Elkins, on account of damage, mdse. amounting to $10.00
13 Paid A. Elkins for balance of inv. of 3/3, $480.20
Paid salaries, $90.00
16 Recd. from H. Smith, in full of inv. of 3/6, $735.00
Exchanged H. Beecher's check for cash $25.00
19 Discounted H. Williams' 30-day note at bank at 5%, proceeds $498.53
20 Recd. of H. Beecher, ½ of inv. of 3/9, less 2%, $245.00
Paid salaries, $90.00
22 Sold to H. Williams, 2/10, n/30, 500 bu. wheat @ $1.00
Bot. of A. Elkins, 2/10, n/30, 100 bbls. flour @ $8.00, and 250 bu. wheat @ $.80
24 Bot. of J. Johnson, 2/10, n/30, 625 bu. wheat @ $.80
Sold to H. Beecher, 2/10, n/30, 40 bbls. flour @ $10.00, and 100 bu. wheat @ $1.00
25 Paid expense bills, $20.00
Bot. store property, $4,000.00 (Open an account with Real Estate)
27 Paid salaries, $90.00
Retd. $10.00 worth of mdse. to A. Elkins
H. Beecher retd. to us mdse. amounting to $10.00
31 Month's collection and exchange at bank, $1.23

Exercise 28B

Write up the Purchase Book resulting from the transactions of Exercise 27*B*, page 160.

29. THE CASH BOOK

Experience has taught us that whenever a large number of similar transactions occur, it is well to segregate them in a special book. Thus we have been introduced to the Purchase Book for merchandise bought by us and to the Sales Book for merchandise sold by us. These special Journals contained original entries. In such books of original entry are placed the first written book records of definite classes of transactions We are about to learn how to use another special Journal called the Cash Journal or Cash Book.

Assume that during the first week of November the following Journal entries were made for cash received by the business:

	Nov. 1, 19—				
	Cash	1,000	00		
	F. A. Brown, Capital			1,000	00
	Invested in Flour and Grain business				
	3				
	Cash	300	00		
	Smith & Co.			300	00
	On acct.				
	5				
	Cash	500	00		
	Thomas Bros.			500	00
	In full of acct.				
	6				
	Cash	10	00		
	H. Browne			10	00
	In full of acct.				

Just as it was possible to save ourselves the writing of " Merchandise Purchases " for each purchase of merchandise, and " Merchandise Sales " for every sale of merchandise, it is possible to obviate the necessity of writing " Cash " for each receipt of money. This is accomplished by means of a special Cash Journal or Cash Book, in which the foregoing entries would appear as follows:

Cash Receipts

Date.		L.F.	Acct. to be Credited.	Explanation.	Amount.	
19—						
Nov.	1		F. A. Brown, Capital	Investment	1,000	00
	3		Smith & Co.	On acct.	300	00
	5		Thomas Bros.	In full	500	00
	6		H. Browne	In full	10	00

It is granted that the foregoing entries are different in form from the corresponding Journal entries, but they serve the same purpose,

They constitute a record of the cash received. They indicate, just as in the case of formal Journal entries, that in each instance the Cash Account is to be debited, and the other account credited. Hence, as a result of the first entry, the Cash account is to be debited for $1,000.00 and Mr. Brown's Capital account is to be credited for the same amount; the second item shows that the Cash account is to be debited for $300.00, and Messrs. Smith & Co's. account credited for the same amount. And similarly, for the other items. We thus learn that, irrespective of the book in which the original entry appears, the result in the Ledger must be the same.

It is also customary to introduce a labor-saving device for cash payments. The Cash Book, for the disbursements, corresponding to the receipts shown above, is as follows:

Cash Payments

Date.		L.F.	Acct. to be Debited.	Explanation.	Amount	
19—						
Nov.	1		Expense	Rent	75	00
	3		Expense	Stationery	12	50
	6		Long & Co.	On acct.	500	00
	6		Expense	Salaries	55	00

The formal Journal entries corresponding to the above Cash Book entries are not presented here, because it is believed that such help is no longer necessary, but it must be clearly understood that as a result of the foregoing entries the following debits and credits result:

On the 1st, Expense account debited and Cash account credited, $75.00;
On the 3d, Expense account debited and Cash account credited, $12.50;
On the 6th, Long & Co.'s account debited and Cash account credited, $500.00;
On the 6th, Expense account debited and Cash account credited, $55.00.

Cash Receipts

Date.		L.F.	Acct. to be Credited.	Explanation.	Amount.	
19—						
Nov.	1		F. A. Brown, Cap.	Investment	1,000	00
	3		Smith & Co.	On acct.	300	00
	5		Thomas Bros.	In full	500	00
	6		H. Browne	In full	10	00

We therefore see that, just as in the case of the Sales Book, Purchase Book and Cash Receipts, the results in the Ledger are exactly the same as if the entries had appeared in the older form of Journal.

But it has become customary to use a Cash Book so arranged that the left page is used for receipts of cash, and the adjoining right-hand page for the disbursements of cash. Such an arrangement, in the case of the cash items above recorded, would be as shown below.

We have seen that the Cash Book makes possible the saving of the writing of the term " Cash " for every transaction involving the receipt or disbursement of cash. We have also seen that the Cash Book makes possible a segregation similar to that which is effected by means of the Sales Book and the Purchase Book. We have still to show that the Cash Book makes possible the posting of totals so that it constitutes an additional labor-saving device. Let us assume that the items shown in the above illustration of the Cash Book constitute the total receipts and disbursements for the month of November. The individual items would be posted as previously indicated, whereas the total receipts of cash would be carried by means of a single posting to the debit side of the Cash account in the Ledger. Similarly, the total cash payments would be posted to the credit side of the Cash account in the Ledger. After making these postings and closing the Cash Book, it would appear as at the top of pages 168 and 169.

Observe that the balance is written on the smaller, or payment, side of the Cash Book in order to make both sides of the Cash Book equal. This is similar to what was done in Part One, when closing the Cash account of the Ledger. The balance is carried over to the first line of the receipt side of the Cash Book for the following month, and subsequent entries are then made in the Cash Book, as before. The first entry for December would appear as on pages 170 and 171.

Some bookkeepers do not post the total of cash receipts and cash payments. They hold that, inasmuch as the Cash Book shows the

Cash Payments

Date.		L.F.	Acct. to be Debited.	Explanation.	Amount.	
19—						
Nov.	1		Expense	Rent	75	00
	3		Expense	Stationery	12	50
	6		Long & Co.	On acct.	500	00
	6		Expense	Salaries	55	00

Cash Receipts

Date.		L.F.	Acct. to be Credited	Explanation.	Amount.	
19—						
Nov.	1	1	F. A. Brown, Cap.	Investment	1,000	00
	3	3	Smith & Co.	On acct.	300	00
	5	8	Thomas Bros.	In full	500	00
	6	5	H. Browne	In full	10	00
		2	Cash Dr.	Total Receipts	1,810	00
					1,810	00

balance of cash on hand, as well as the total receipts and disbursements, to carry the total of both sides to the Ledger is an unnecessary procedure. Though the step may undoubtedly be dispensed with, it is a much better practice to have a Cash account in the Ledger, despite the fact that the Cash Book answers the same purpose. No hardship is involved, because the labor necessary to make the transfer once a month is almost negligible.

Questions

1. What is the function of the Cash Book?
2. How can the balance of cash be found?
3. What is the relation between the Cash Book and the Cash account?
4. Is the Cash Book a book of original entry or a book of final entry? Why?
5. Explain clearly what saving is effected by employing the Cash Book.

Exercise 29A

Write up the Cash Book for the transactions of Exercise 27*A*, page 159.

Exercise 29B

1. Enter the following transactions in a Journal, Sales Book, Purchase Book and Cash Book:

19—
Mar. 1 M. L. Searby began business by investing cash, $5,000.00 and 300 bbls. flour worth $8.50 per bbl.[3]

[3] It is customary to show the opening entry in the Journal, for the full investment, even when a Cash Book is employed. Many bookkeepers "check" the debit to the cash account in the Journal, that is, they place a check (✓) mark in the Ledger Folio column, to indicate that the item is *not* to be posted. Similarly, they check the entry in the Cash Book, so as *not* to credit the proprietor's account from this book. The reason is simple enough: Merchandise account is debited for $2,550.00 from

Cash Payments

Date.		LF.	Acct. to be Debited.	Explanation.	Amount.	
19—						
Nov.	1	4	Expense	Rent	75	00
	3	4	Expense	Stationery	12	50
	6	11	Long & Co.	On acct.	500	00
	6	4	Expense	Salaries	55	00
		2	Cash, Cr.	Total Disbursements	642	50
			Balance [4]		1,167	50
					1,810	00

Paid rent of store, $80.00

Mar. 3 Sold Thos. Jones, on acct., 10 bbls. flour @ $9.75

4 Paid cash for books and stationery $41.00, furniture $380.00, typewriter and desk $110.00

Bot. of N. Y. Flour Co., on acct., 500 bbls. flour @ $8.60

5 Thos. Jones paid us in full of acct., $97.50

6 Paid clerks $48.00, sundry expense items $9.37

9 Paid N. Y. Flour Co., on acct., cash $2,500.00

Sold Thos. Jones, on acct., 25 bbls. flour @ $10.00

11 Paid cash for printing, $12.50

the Journal; Cash account is debited from the Cash Book for $5,000.00 when the total of the month's cash receipts is posted; Mr. Searby's account is credited for $7,550.00 from the Journal.

Instead of checking the items not to be posted, it has now become fashionable to accomplish the same purpose, and at the same time indicate the reason for the action, by substituting for the checks the pages of the books wherein the same item is to be found. The procedure is still called checking, however. The Journal and Cash Book entries for Mr. Searby's investment follow:

Journal Entry

Mar. 1, 19—

		C.B.1	Cash	Investment:	5,000	00		
		4	Mdse. Inventory	Cash $5,000.00	2,550	00		
		1	M.L.Searby,Cap	300 bbls. Flour 8.50			7,550	00

Cash Book Entry. Receipt Side

Mar.	1	J1	M. L. Searby, Cap.	Part Investment	5,000	00		

[4] Red ink, usually. Horizontal lines are also usually in red ink.

Cash Receipts

Date.		L.F.	Acct. to be Credited.	Explanation.	Amount.	
19— Dec.	1		Balance		1,167	50

Mar. 13 Bot. of N. Y. Flour Co., on acct., 200 bbls. fiour @ $8.70
Bot. of Western Produce Co., on acct., 2,500 bu. oats @ 80c. and 2,000 bu. wheat @ $1.00
Paid clerks, $48.00
16 Sold E. A. Kimmerling, on acct., 100 bbls. flour @ $10.00, 500 bu. oats @ 95c. and 500 bu. wheat @ $1.25
18 Sold Charles Schmidt, on acct., 200 bbls. flour @ $10.00, and 1,000 bu. oats @ 95c
20 Recd. cash on acct., as follows:

E. A. Kimmerling,	1,500.00
Charles Schmidt,	2,000.00

Paid N. Y. Flour Co., balance of invoice of 4th inst., $1,800.00
Paid Western Produce Co., cash on acct., $2,500.00
Paid clerks, $54.00
27 Paid clerks, $54.00
30 Recd. of Thomas Jones, cash in full of acct., $250.00
Sold E. A. Kimmerling, on acct., 50 bbls. flour @ $10.00, and 200 bu. wheat @ $1.25

2. Post the entries resulting from the foregoing transactions, and close the Purchase Book, Sales Book and Cash Book.

3. Take a Trial Balance.

4. Prepare a Statement of Assets and Liabilities and a Profit and Loss Statement. Merchandise Inventory, $8,500.00, depreciation on office furniture 10%, expense inventory $25.00.

5. Close the books.

30. GENERAL APPLICABILITY OF THE SPECIAL JOURNALS

We have learned that the Sales Book, the Purchase Book and the Cash Book were only special forms of the Journal. The special books are designed to facilitate the making of the original entries for frequently recurring types of transactions. The older form of Journal

Cash Payments

Date.	L.F.	Acct. to be Debited.	Explanation.	Amount.

is accordingly reserved for transactions which cannot readily be placed in the special Journals. It would be well, now, to review the various kinds of transactions which we have already learned how to enter, so as to test the general usefulness of the books introduced in this section.

Let us, therefore, consider the following types, which, while not exhaustive, are sufficient for our present purposes:

(*a*) Proprietor's investment, together with withdrawals of money and merchandise.
(*b*) Sales for cash and on account.
(*c*) Purchases for cash and on account.
(*d*) Sales, part payment in cash, balance on account.
(*e*) Purchases, part payment in cash, balance on account.
(*f*) Notes received from customers, on account, and in full of account.
(*g*) Notes given to creditors on account and in full of account.
(*h*) The notes in (*f*) and (*g*), above, paid at maturity.
(*i*) Customer's notes received by us, discounted at the bank.
(*j*) Discounting our own notes at the bank.
(*k*) Prepayment of a purchase.
(*l*) Prepayment of a sale.
(*m*) Sales returned to us.
(*n*) Purchases returned to us.

Though the above list is by no means exhaustive, it will suffice, for our present purposes, to teach how the books of original entry which were introduced in this section, together with the older form of Journal, are available for the recording of the items listed.

(a) **Proprietor's Account.**—We have already seen how to record the investment (page 168) and withdrawal of money. When the proprietor takes goods for his own use, his account is charged and either Merchandise Sales or Merchandise Purchases is credited. It is much

more usual to credit the Sales account than the Purchase account.[5] The entry for the withdrawal, therefore, would be shown in the Sales, Book, as a result of which the Proprietor's account would be debited and Sales account credited.

(b) Sales.—Sales on account will give no trouble. For cash sales, obviously enough, both the Cash Book and the Sales Book must be employed. The first question to decide is which of the following entries would have been used had the entry appeared in the old form of Journal:

	Cash	$——	
	Mdse. Sales		$——
and	Customer	$——	
	Mdse. Sales		$——
	Cash	$——	
	Customer		$——

We saw in the first division of this work that the decision to employ either the first or the second of the above forms depended upon our judgment regarding the value of keeping Ledger accounts with all customers regardless of whether they bought for cash or on account. If we decided to keep no personal accounts with cash customers, then, as a result of entries in both the Sales Book and in the Cash Book, Cash account would be debited and Sales account credited. This would be accomplished by the following entries:

Entry in Sales Book:

	L.F.	Date				
	C.B.5	Frank Vose, Cash (Details regarding the items sold)	.....		.....	

Entry in Cash Book:

		L.F.	Receipt Side				
Date		S.8	Cash Sales	Frank Vose	.....		

[5] If the proprietor is charged with the cost of the goods taken, the Purchase account is sometimes credited to correspond; but if the charge is made at the selling price, the credit is to the Sales account. However, the Sales account is used more frequently, regardless of the price at which the merchandise is charged.

Observe that neither the Sales Book entry nor the Cash Book entry is posted to any Ledger account. The Cash Book item will result in a debit to Cash account, when the total cash receipts are posted at the end of the month. The corresponding credit will be to the Sales account, when the Sales Book total is posted, also at the end of the month.

On the other hand, if we favor the keeping of personal accounts with all customers, regardless of whether they purchased for cash or on account, and this is probably the wisest policy, the following entries would result:

Entry in Sales Book:

L.F.	Date				
	15	Frank Vose, Cash (Details regarding the items sold)	.....	....	.....	....

Entry in Cash Book:

	L.F.	Receipt Side					
	15	Frank Vose	Inv. of today	.....	....		

We favor the latter entries for reasons already familiar to the student. There is no essential difference between the entries required to record a sale on account subsequently settled in cash, and a cash sale. This is so because the sole difference is one of time; in the first instance payment was deferred, in the second it was simultaneous with the sale. Moreover, the term of sale, " Cash ", has come to mean not spot cash, i.e., not cash paid simultaneously with the delivery of the goods, but the equivalent of " Net." Payment is then made according to the custom of the trade or industry, frequently soon after the first of the month following the sale; sometimes within a few days after the receipt of the invoice.

(c) **Purchases.**—The manner of recording a purchase on account was made clear in the first division of this section, page 162. How to enter the payment on the payment side of the Cash Book was shown in the third division, page 166. Let us now consider the record for a cash purchase. We may employ either of two methods, similar to the entries for a cash sale. The method corresponding to the second solution

for a cash sale is the better one. By means of it we first charge Purchases account and credit the seller's account, and then charge the seller's account and credit Cash account. The following illustration will make the statement clear:

Entry in Purchase Book:

Date

24	R. Jones & Co., Cash (Details regarding the items bought)	.....	...	.....	

Entry in Cash Book:

Payment Side

	24	R. Jones & Co.	Inv. of today	.....	....		

Expense items purchased for cash should cause no difficulty. An entry on the payment side of the Cash Book, charging Expense account or some subdivision of the Expense account, suffices. When furniture is bought for cash, the entry is also made on the disbursement side of the Cash Book, and results in a charge to Furniture and Fixtures account.

(d) Sales (*Continued*).—Were a simple Journal the only book of original entry employed, the following would be the solution for a sale of $1,000.00, $200.00 cash, balance on account.

Cash	$200.00	
Customer	800.00	
Sales		$1,000.00

But because most business men would wish to show the full sale in the Ledger, the following Journal entries are preferred:

Customer	$1,000.00	
Sales		$1,000.00

and,

Cash	$200.00	
Customer		200.00

The entries in the Sales Book and Cash Book would be based upon the second of the two foregoing solutions, so that the customer would be charged for the full amount from the Sales Book, and credited with $200.00 from the Cash Book.

(e) **Purchases** (*Continued*).—The entries for a purchase corresponding to the above sale would be shown in the Purchase Book and the Cash Book. In the former, the entry for the entire purchase would be shown, so that the seller would be credited, while the record for the part payment would be shown on the payment side of the Cash Book, whence the creditor would be charged. The credit balance in the creditor's account would indicate the amount still due by us on account of the purchase.

(f) **Notes Receivable.**—As no special provision has been made for recording notes received from customers, they must continue to be placed in the Journal. If a memorandum Bill Book is employed (pages 397), it is to be used *in addition* to the usual Journal record.

(g) **Notes Payable.**—The entry for notes issued by us would be shown in the Journal, because no special provision had been made for such transactions. A memorandum entry in the Bill Book (page 398) should also be shown.

(h) **Payment of Notes.**—The entry, when a note received from a customer is paid at maturity, must appear on the receipt side of the Cash Book. It will be equivalent to the following Journal entry:

Cash	$1,000.00	
Notes Receivable		$1,000.00

and is as follows:

Receipt side of the Cash Book:

		Notes Receivable	Smith paid his note of July 1	1,000	00		

The entry for the payment of our own note at maturity would appear on the payment side of the Cash Book as follows:

		Notes Payable	Paid our note of June 3, favor	1,000	00		

(i) **Discounted Notes Receivable.**—But if the notes discussed in (*f*), above, had been discounted, we know that a Journal entry, of which the following is a type, would be required:

Cash	$995.00	
Discount on Notes	5.00	
Notes Receivable		$1,000.00

The manner of recording this transaction, when a Cash Book is used, must now be shown. A general principle of universal application will aid us. No matter in what book of original entry the record is made, the final Ledger accounts must be affected in exactly the same way. Hence, in order to credit Notes Receivable account from the Cash Book, the following entry is necessary on the receipt side:

		Notes Receivable	Dis. Smith's note of 5/3	1,000	00		

It is also necessary to debit Discount on Notes account from the Cash Book. This is accomplished by the following entry on the payment side:

		Discount on Notes	30 days' discount on Smith's note	5	00		

We thus see that the debit to Discount on Notes account and the credit to Notes Receivable account can be obtained by means of Cash Book entries. But how shall we debit the Cash account for $995.00, a step which is apparently still necessary in order to prove that the same result is obtained without the use of the formal Journal? *This step has already been taken.* The entry on the receipt side of the Cash Book ($1,000.00), less the entry on the payment side ($5.00), is exactly equivalent to a single debit of $995.00. It is admitted that the entry is somewhat cumbersome, and later in our studies we shall learn of a more efficient method of recording such transactions.

Some bookkeepers would make an entry in the Journal and another in the Cash Book for this transaction:

In the Journal:

	C.B.8	Cash	Dis. Smith's note of 5/3	995	00		
		Discount on Notes		5	00		
		Notes Rec.				1,000	00

In the Cash Book, on the receipt side:

	J5	Notes Rec.	Dis. Smith's note, proceeds	995	00		

Though the foregoing entries clearly record and express the transaction, it is not recommended that the student adopt them.

(j) **Discounting Notes Payable.**—Sometimes money is borrowed from the bank, as we already know. In such cases a promissory note is issued, and it is made payable either to our own order, and indorsed, or else it is made payable to the order of the bank. Such notes, especially the so-called single name paper, are also "sold" to note brokers—dealers in commercial paper—who practically lend money to the maker of the note. In either case, we have learned that the following Journal entry is typical of the record made when the note is discounted at the bank, or sold to a broker:

Cash	$1,176.00	
Discount on Notes	24.00	
Notes Payable		$1,200.00

However, as the Cash Book must be employed, observe how the following entries give the same result:

On the receipt side:

		Notes Payable	Dis. my 4-mos. note at bank	1,200	00		

On the payment side:

		Discount on Notes	4-mos. discount on my note	24	00		

The Journal and Cash Book entries which some bookkeepers would employ are analogous to the entries shown for corresponding Notes Receivable, above.

(k) **Purchases Prepaid.**—The student has learned that when we prepay a purchase, that is, when we pay for it ahead of time so as to avail ourselves of the cash discount, the following type of Journal entry results:

Thos. West	$320.00	
Cash		$313.60
Discount on Purchases		6.40

We accomplish the same purpose by the following Cash Book entries:

On the payment side:

		Thos. West	Inv. 5/3, less 2%	320	00	

On the receipt side:

		Discount on Purchases	Thos. West, Inv. 5/3	6	40	

The student should be able to prove that the foregoing Cash Book entries serve the same purpose as the Journal entry to which they correspond.

(l) Sales Prepaid.—To the following type Journal entry for the receipt of money to prepay a previous sale:

Cash	$392.00	
Discount on Sales	8.00	
Franklin & Co.		$400.00

there corresponds the following Cash Book entries:

On the receipt side:

		Franklin & Co.	Inv. 3/2, less 2%	400	00	

On the payment side:

		Discount on Sales	Inv. 5/2, Franklin & Co.	8	00	

(m) Returned Sales.—A Journal entry, as hitherto, suffices for returned sales:

Sales	$12.50	
Thos. Jones		$12.50

Some accountants favor a special book for such returns. Where a special Returned Sales Book is employed, the returns are entered as they occur, and the posting is similar to that from the Sales Book. Each customer is credited, while Sales account is charged, with the total of the returns made during the month, at the end of each month.

(n) Returned Purchases.—The entries resulting from purchases returned by us are similar to those outlined for returned sales in (m), above.

Questions

1. Indicate the saving resulting from the use of the special books employed in this section.

2. Describe the uses of the Journal, taking into consideration that a Sales Book, a Purchase Book and a Journal are employed.

3. Show why it is better to open an account with Thomas Jones, who bought some goods from us for cash, than merely to debit Cash account and credit Sales account.

4. Does the Sales Book indicate the accounts to be debited and credited? Explain fully.

5. From memory, rule:

   (*a*) A Sales Book page, labeling each column.
   (*b*) A Purchase Book page, labeling each column.
   (*c*) Both sides of the Cash Book, labeling each column.

6. Prove that the entry on page 178, for the Thomas West transaction, is equivalent to the following entries:

In the Journal:

	C.B.3	Thos. West	320	00		
		Cash			313	60
		Discount on Purchases			6	40

In the Cash Book, on the payment side:

	J2	Thos. West		313	60		

(For Exercises, see p. 180.)

SUMMARY OF INTERMEDIATE BOOKKEEPING

It was pointed out at the beginning of the present chapter that a division between Elementary and Intermediate Bookkeeping is purely arbitrary. The subject of bookkeeping is so extensive that it is wise, for teaching purposes, to divide it into several parts. Accordingly, we have selected the present subdivision for the purpose of presenting certain phases of bookkeeping connected with special books of original entry. It has furthermore been shown that these special Journals—

the Cash Book, the Purchase Book and the Sales Book—facilitated the routine involved in recording business transactions.

The special point to be emphasized, however, is that, regardless of what books of original entry are employed, the resulting debits and credits in the Ledger, and the fundamental principle of double entry bookkeeping never vary. Further modification of the books of original entry, together with other phases of our subject, are discussed in the chapter dealing with advanced bookkeeping.

Questions

1. What advantages are secured by employing a Sales Book instead of a Journal?
2. What advantages are secured by employing a Purchase Book instead of a Journal?
3. What advantages are secured by employing a Cash Book instead of a Journal?
4. Explain how to record the discounting of our note at the bank, when a Cash Book is employed.
5. Should a cash account be kept in the Ledger when a Cash Book is employed? Explain fully.
6. Justify, in terms of the basic principles of double entry bookkeeping, a Sales Book and a Cash Book entry for a cash sale of merchandise.
7. Show that the basic principle of double entry bookkeeping is observed, when recording a prepayment by us of a purchase of merchandise amounting to $500.00, made previously, on which a discount of 2% is allowed us.

Exercise 30A

1. Enter the transactions of Exercise 26*B*, page 128, employing a Cash Book, a Sales Book, a Purchase Book and Journal.
2. Close the books of original entry.
3. Post and take a Trial Balance.

   (A Statement of Assets and Liabilities and a Profit and Loss Statement need not be prepared at this point, because such statements were prepared in connection with Exercise 26*B*, and will be called for in Exercise 42*A*.)

Exercise 30B

Repeat the instructions contained in 1, 2 and 3 of Exercise 30*A*, for Exercise 26*C*, page 136.

Exercise 30C

Repeat the instructions contained in 1, 2 and 3 of Exercise 30*A*, for Exercise 26*D*, page 149.

PART III

ADVANCED BOOKKEEPING

The universality of double entry bookkeeping principles is emphasized in this division. The aim of this section is to show how to obtain the maximum of bookkeeping results at a minimum expenditure of time and energy.

ADVANCED BOOKKEEPING

As was pointed out in the previous section, the distinction between Elementary, Intermediate, and Advanced Bookkeeping, is mainly arbitrary. We have already discussed the divisions of Bookkeeping which we have seen fit to include under the headings of Elementary and Intermediate. There remain for discussion certain topics which we shall treat under the heading of Advanced Bookkeeping. These topics are, essentially, the use of special columns in books of original entry, the employment of controlling accounts, and the preparation of modern Balance Sheets and Income Statements.

Special Columns in Books of Original Entry

We have already learned how the use of special Journals, such as the Sales Book, Purchase Book and Cash Book, have facilitated detailed bookkeeping, and how other advantages have accrued, due to their use. As a further means of reducing the detailed work necessarily involved in all bookkeeping procedure, much has been made of so-called extra or special columns in certain books of original entry. We shall introduce this topic by showing how the advantages, which we are about to present, may be enjoyed by utilizing more fully the Cash Book form with which the student is already familiar.

31. Expense Column on the Credit Side of the Cash Book

The student might observe that many of the disbursements made during the month are for expense items. In fact, the majority of disbursements, other than to creditors, may be grouped under the general head of "Expense." This statement would be somewhat modified, of course, where the Expense account is broken up into such other accounts as Wages, Salaries, Stationery, Printing, etc. But, for our present purposes, let us assume that the Expense account includes most of the charges which are very frequently carried to the subdivisions of the Expense account. In this case, we would find it quite advantageous to use the second column on the disbursement side of the Cash Book—the column which, as the student must have observed, was

practically unused in previous sets—for collecting all disbursements chargeable to Expense account. Were we to do so, then, instead of posting each individual expense item to the debit side of the Expense account, we could post the entire amount, as a total, monthly. Where the expense column is so employed in the Cash Book, it appears as follows:

Cash Disbursements

19—		L.F.	Account to be Debited.	Explanation.	Expense.		General.	
Jan.	2	√	Expense	Rent	75	00		
	5	6	Lewis Bros.	On acct.			300	00
	7	9	Rand & Co.	In full			500	00
	8	√	Expense	Salary	35	00		
	12	12	Fur. & Fix.	Office furniture			100	00
	15	16	Discount	On Jones's note, 1/4			4	50
	15	√	Expense	Salary	35	00		
	19	√	Expense	Sta. $17; print. $11	28	00		
	23	6	Lewis Bros.	On acct.			150	00
	23	√	Expense	Salary	35	00		
	26	15	Notes Payable	My note favor J. G. 1/15			400	00
	30	√	Expense	Salary	35	00		
	31	√	Expense	Postage	6	00		
		2	Expense, Dr.	Total	249	00	249	00
		8	Cash, Cr.	Total for the month			1,703	50
			Balance [1]				420	25
							2,123	75

Comments.—(*a*) Notice that all the expense items are extended into the first money column, while all other items are carried into the second money column. Obviously enough, the columns might have been transposed. This arrangement effectively separates cash payments chargeable to Expense from all other cash payments made during the corresponding period.

(*b*) In order to avoid posting individual expense items to the Expense account in the Ledger, note the small check mark placed in the Ledger Folio column opposite each expense item. As the student

[1] In red ink.

learned before, this check or tick (√) is a device employed by bookkeepers to denote that the item to which it refers is not to be posted. Instead of posting these individual expense items, the total is posted (to page 2 of the Ledger) as indicated.

(*c*) But, as it is necessary to obtain the full amount of the cash disbursements for the month, observe how the total of the expense payments, besides being posted as indicated in the preceding paragraph, has been carried to the second money column.

(*d*) It is hardly necessary to point out that corresponding to the single debit of $249.00, carried to the Expense account in the Ledger, Cash has been effectively credited by adding this amount to the second column of the Cash Book, before obtaining the Cash Balance at the end of the month.

Questions

1. To what use may the second column on the disbursement side of the Cash Book be put?
2. What advantages result from employing a special column for expense items?
3. Prove that debits and credits of equal amount result from using the Cash Book illustrated in this section.

Exercise 31A

Show the Cash Book which would result from using the ordinary receipt side and the special column disbursement side for Exercise 3*C*, page 130.

Exercise 31B

Repeat Exercise 31*A*, above, for Exercise 3*D*, page 138.

32. An Extra Column on the Receipt Side of the Cash Book for Sales Discounts Allowed to Customers

We are about to illustrate how the column on the receipt side of the Cash Book, which corresponds to the newly introduced Expense Column on the disbursement side of the Cash Book, may be employed to effect a similar saving in posting. Let us utilize, for our present illustration, the well-known fact that customers who prepay their purchases from us are entitled to a cash discount for such prepayment. Hitherto it has been customary to record on the receipt side of the Cash Book the receipt of a payment in full, and then to offset this entry by another one on the credit side of the Cash Book for the amount not received, i.e., for the amount of the sales discount allowed. To refresh the

student's memory, let us consider the entry, as previously made, to record the following transaction:

July 8 Recd. of Thomas Smith in full for invoice of July 2, less 2% discount, his check for $980.00

Entry on the receipt side of the Cash Book was as follows:

July	8	7	Thomas Smith	Inv. 7/2, less 2%	1,000	00

Entry on the payment side of the Cash Book was as follows:

July	8		Dis. on Sales	T. Smith, Inv. 7/2	20	00

It must be clear to the reader that the foregoing entries are rather cumbersome, and, in addition, they fail to express truly the transaction, as it occurred. It is not *absolutely* true that we received $1,000.00 from Smith and then returned to him $20.00, though we are willing to grant that, for practical purposes, this interpretation is acceptable. Nevertheless, we are now prepared to record the transaction in a manner which should remove the objection to the entry, based upon a realization that it does not exactly correspond to the facts in the case. Let us reserve the first money column on the receipt side of the Cash Book for sales discounts, then the entry for the transaction in question would appear as follows:

					Dis. on Sales.		General.	
July	8		Thomas Smith	Inv. 7/2, less 2%	20	00	980	00

Is it not clear that the second money column on the receipt side of the Cash Book clearly indicates how much actual cash was received from Smith? But how can we show in Mr. Smith's account that his payment of $980.00 canceled his indebtedness to us of $1,000.00? By simply crediting him with $1,000.00, either in a single item or in two items, as follows:

(*a*) Thomas Smith

July	2	S.B.	8	1,000	00	July	8	C.B.	7	1,000	00

or (*b*) **Thomas Smith**

July	2	S.B.	8	1,000	00	July	8	C.B. Dis.	7	980 20	00 00

Most bookkeepers prefer the first of the two postings shown, on the ground that there is less labor attached to the entry of a single item than to two items. The reader is advised, in the absence of special requirements, to employ the postings shown in (*a*), above. The following page of the Cash Book illustrates its appearance when kept in accordance with the principles just outlined:

Cash Receipts

Date.		L.F.	Account to be Credited.	Explanation.	Dis. on Sales.		General.	
July	1	1	Robert Hart	Investment			6,000	00
	3	5	Knight Bros.	On acct.			300	00
	7	6	Wm. Jones	Inv. 7/1, less 2%	8	00	392	00
	8	7	Thomas Smith	Inv. 7/2, less 2%	20	00	980	00
	15	5	Knight Bros.	In full			200	00
	18	6	Wm. Jones	Inv. 7/12, less 2%	16	00	784	00
	23	10	Knight Bros.	Inv. 7/17, less 2%	10	00	490	00
	25	3	Fur. & Fix.	Sold office desk			50	00
	26	7	Thomas Smith	On acct.			100	00
	29	11	Reed & Son	Inv. 7/22, less 2%	18	00	882	00
	29	4	Notes Receivable	2-mo. Brown, due today			1,000	00
	31	14	White & Co.	Inv. ./25, less 2%	12	00	588	00
	31	24	Dis. on Sales, Dr.	Total for month	84	00		
		8	Cash, Dr.	Total receipts			11,766	00

Comments.—(*a*) Observe that the general column of the Cash Book shows the *full* amount of cash received during the current month.

(*b*) The first money column shows the cash *not* received, i.e., the discount allowed to customers for prepayment.

(*c*) Of course, customers are credited, not with the amount of cash received from them, but with the amount which their payment canceled. Accordingly, in the case of Smith, corresponding to the credit

to his account of $1,000.00 (July 8), we have a debit to Cash Account (cash receipt) of only $980.00. How can we establish the necessary equilibrium in the Ledger? Another debit of $20.00 must be made. But to what account? No other account than Discount on Sales account suggests itself.

(*d*) We have shown in the previous paragraph that Discount on Sales account must be debited for $20.00 as a result of the Smith transaction. It could similarly be proved that the same account should be debited for the other discounts allowed. But this simply indicates the posting from this special column, namely, Discount on Sales account must be debited for the total discount allowed, monthly. This procedure has been clearly indicated by the entry on the 31st of the month.

Questions

1. Prove that equal debits and credits would result from the entries shown in the Cash Book, illustrated on page 187.
2. To which side of Discount on Sales account in the Ledger should the total of discounts allowed be posted? Why?
3. Criticise this " rule " taken from a book on bookkeeping:

   " Items appearing on the debit side of the Cash Book must be posted to the credit side of the designated Ledger accounts."
4. Indicate what advantages result from employing the special column illustrated in this section.

Exercise 32A

Employing the transactions of Exercise 18*C*, page 134, show the receipt side of the Cash Book which would result.

Exercise 32B

Show the Cash Book for Exercise 18*B*, page 62 using the two special columns introduced in this and in the preceding section.

33. Other Special Columns in the Cash Book

We have just learned how to utilize both columns on each side of the ordinary Cash Book, but when occasion arises, bookkeepers employ Cash Books with more than two columns on each side. We are about to illustrate the use of a Cash Book having three columns on the disbursement side. The additional column is introduced, let us say,

because the business makes use of promissory notes in such large volume that the redemption of these notes constitutes a considerable number of cash payments. The following form will be readily understood:

Cash Disbursements

19—		L.F.	Account to Be Debited.	Explanation.	Notes Payable.		Expense.		General.	
Mar.	1	√	Expense	Rent			100	00		
	4	√	Notes Payable	2-mo. favor J. G.	500	00				
	6	8	Fur. & Fix.	Office furniture					125	00
	8	√	Expense	Salary			50	00		
	10	√	Notes Payable	1-mo. favor R. B.	800	00				
	14	15	Thom Bros.	On acct.					400	00
	15	√	Expense	Salary			50	00		
	17	√	Notes Payable	15-day favor, J. J.	600	00				
	18	20	The Lane Co.	In full					1,000	00
	20	√	Expense	Postage			10	00		
	22	√	Expense	Salary			50	00		
	25	√	Notes Payable	2-mo. favor L. & B.	700	00				
	26	24	C. Cole	On acct.					800	00
	29	12	Discount	On my note					10	00
	29	√	Expense	Salary			50	00		
	30	√	Notes Payable	1-mo. favor C. C.	900	00				
	31	√	Notes Payable	15-day favor, W. B.	950	00				
		6	Notes Payable, Dr.	Total	4,450	00			4,450	00
		5	Expense, Dr.	Total			310	00	310	00
		2	Cash, Cr.	Total					7,095	00
			Balance [2]						6,500	00
									13,595	00

[2] In red ink.

Comments.—(*a*) Observe that the additional column for Notes Payable was added to the left of the ordinary columns. The position is not essential, however.

(*b*) Instead of charging Notes Payable account in the Ledger, for each disbursement to take up individual notes, notice that the posting is made as a total at the end of the month, and that the separate items are checked in the L. F. column. The practice of posting individual items to the Notes Payable account has by no means been discontinued, however.

(*c*) The total disbursements, for the purpose of redeeming notes, is carried into the general column, as is also the total of Expense disbursements, so as to obtain the total disbursements for the month.

(*d*) It is hardly necessary to point out that, corresponding to the charge to Notes Payable account in the Ledger, we have a credit to Cash in the Cash Book.

Questions

1. Show what advantages result from employing a special column for Notes Payable, as indicated in this section.
2. Suggest another column which might be advantageously added to the payment side of the Cash Book. Why?
3. Name a column which might be added to the receipt side of the Cash Book, and state what good results would accrue.
4. Summarize the advantages which result from the employment of additional columns in the Cash Book.

Exercise 33

Employing the transactions of Exercise 20*D*, page 147, show the disbursement side of the Cash Book resulting therefrom. Follow model, page 189.

34. Special Columns in the Sales Book

1. Cash Sales Column.—The student must note that in many lines of business sales are frequently made for cash, to people who are not regular customers of the house, and even to strangers with whom no subsequent dealings will in all probability be had. Though it is probably better, even in such cases, to open a Ledger account with each customer, many bookkeepers object to the labor of opening accounts except with regular customers. It is accordingly necessary to arrange to handle such sales in an efficient manner. Obviously enough, Cash account must be debited and Merchandise Sales account credited for each transaction in the class, but as we have special books now, this means that we must make an entry in the Cash Book and another entry in the Sales Book. The Cash Book entry might, well enough, appear in the general column, though a special Cash Sales column is very frequently employed for these items. In the Sales Book, it is frequently desired to separate cash sales from ordinary sales. By

employing a special Cash Sales column, the separation becomes simple. The following Sales Book illustration will make this point clear:

Sales, June 8, 19—

L.F.			Extensions.		Cash.		On Account.	
3	Robert Bros. 2/10, n/30							
	500 yd. No. 10 Ribbon	$1.00	500	00				
	300 yd. No. 5 Ribbon	.60	180	00			680	00
	10							
5	F. Flower On acct.							
	2,000 yd. No. 42 Ribbon	.50	1,000	00			1,000	00
	14							
√	John Holt Cash							
	10 yd. No. 66 Ribbon	1.50	15	00				
	5 yd. No. 54 Ribbon	2.00	10	00	25	00		
	20							
3	Robert Bros. 2/10, n/30							
	2,000 yd. No. 66 Ribbon	1.50	3,000	00			3,000	00
	22							
√	H. March Cash							
	5 yd. No. 42 Ribbon	.50	2	50				
	50 yd. No. 10 Ribbon	1.00	5	00	7	50		
	25							
6	John Holt On acct.							
	3,000 yd. No. 25 Lace	1.00	3,000	00			3,000	00
	29							
√	Mr. Cash Cash							
	1 yd. No. 29 Lace	1.25	1	25				
	6 yd. No. 55 Ribbon	.50	3	00	4	25		
	Total [3]		7,716	75				
	30							
2	Mdse. Sales, Cr., Total Cash Sales				36	75		
2	Mdse. Sales, Cr., Total Time Sales						7,680	00

[3] The total of the Cash and On Account columns should equal the total of the Extensions column.

Comments.—(*a*) Observe where the unit price (in this case the price per yard), appears. Also note that individual extensions appear in the first column, properly labeled.

(*b*) Ordinary sales are carried into the last column headed "On Account."

(*c*) Cash Sales appear in the second column, as shown. It is assumed that here "Cash" means payment made simultaneously with the sale.

(*d*) Note the use of "Mr. Cash" on the 29th. When a buyer's name is not obtained it is usual to charge the sale to "Cash" or to "Mr. Cash."

(*e*) The total of the Cash Sales column is credited to Merchandise Sales account in the Ledger. Corresponding to this credit there is a debit on the receipt side of the Cash Book. It would be wrong to credit the Sales account again from the Cash Book, and so care must be taken to check the corresponding Cash receipts in the Cash Book, to avoid duplicate posting.

(*f*) Notice that for the people to whom the cash sales were made, no posting is necessary, as it is assumed that no Ledger account will be kept with them. The checks indicate the absence of such posting. Instead of ticks the corresponding Cash Book pages might be employed.

(*g*) The total of the "On Account" column is credited to the Merchandise Sales account, as indicated. The corresponding debit will be found in the charges to the individual accounts of the customers.

2. Departmental Columns.—One of the arguments in favor of keeping complete double entry books, such as those with which the student is already familiar, is that it enables the proprietor to learn not only the net profit as a result of the operations for a period, but also the *sources* of such profits. Certain organizations, like merchants and traders, often wish to know the amount of sales, not only in total volume, but also by departments. The Sales Book lends itself very nicely to the task of supplying this information. By the use of additional columns, almost any degree of detailed information regarding the classes of goods sold is obtainable. The illustration on page 193 will make the subject clearer.

Comments.—(*a*) The total of the extension column will give the total sales for the period under review. Some bookkeepers prefer to show the total of each invoice in a fifth column, but this is hardly necessary now, though sometimes desirable.

(*b*) Note that instead of crediting Merchandise Sales account for the total sales, the Sales account of each department is credited in the

Sales, Aug. 9, 19—

L. F.			Invoice Extension.		Ribbons.		Laces.		Silks	
5	The Martin Co. 2/10, n/30									
	1,000 yd. No. 10 Ribbon....	$1.00	1,000	00						
	500 yd. No. 5 Ribbon....	.60	300	00	1,300	00				
	500 yd No. 99 Silk........	1.50	750	00					750	00
			2,050	00						
	12									
8	The Carter Co., On acct.									
	2,000 yd. No. 42 Ribbon....	.50	1,000	00						
	1,000 yd. No. 66 Ribbon....	1.50	1,500	00	2,500	00				
	1,000 yd. No. 25 Lace.......	1.00	1,000	00						
	500 yd. No. 54 Lace.......	2.50	1,250	00			2,250	00		
			4,750	00						
	16									
10	John D. Wood 2/10, n/30									
	1,000 yd. No. 87 Silk.......	1.25	1,250	00						
	500 yd. No. 85 Silk.......	1.00	500	00						
	500 yd. No. 80 Silk.......	2.00	1,000	00					2,750	00
			2,750	00						
	20									
18	Price & Co. On acct.									
	500 yd. No. 80 Silk.......	2.00	1,000	00					1,000	00
	2,000 yd. No. 42 Ribbon....	.50	1,000	00						
	500 yd. No. 10 Ribbon....	1.00	500	00	1,500	00				
	1,000 yd. No. 25 Lace.......	1.00	1,000	00						
	300 yd. No. 54 Lace.......	2.50	750	00			1,750	00		
			4,250	00						
	28									
24	Asher Bros. On acct.									
	2,000 yd. No. 66 Ribbon....	1.50	3,000	00						
	1,000 yd. No. 5 Ribbon....	.60	600	00						
	500 yd. No. 10 Ribbon...	1.00	500	00	4,100	00				
	1,000 yd. No. 75 Lace.......	3.00	3,000	00						
	800 yd. No. 25 Lace.......	1.00	800	00			3,800	00		
			7,900	00						
	31									
30	Ribbons Sales, Cr., total for month				9,400	00				
32	Laces Sales, Cr., total for month						7,800	00		
34	Silks Sales, Cr., total for month								4,500	00

Ledger, with the amount representing the sales of each respective department for the period.

(*c*) Corresponding to all these credits, there are the individual debits to the Ledger accounts of the customers.

(*d*) Any other subdivision of the Sales Book, arising out of the needs of particular lines of business, may be built upon the basis of the principles illustrated in the foregoing.

Questions

1. What advantage is gained by using additional columns in the Sales Book?
2. Show that the departmentalized Sales Book entries result in debits and credits of equal amount.
3. What special columns would you advise for Mr. Moore's business? (See Exercise 17*D*, page 145.)

Exercise 34A

Employing a departmentalized Sales Book, show the entries therein for the sales of Exercise 18*D*, page 145.

Exercise 34B

Show the entries in a departmentalized Sales Book for the sales of Exercise 19*D*, page 146.

35. Special Columns in the Purchase Book

Divisions similar to those illustrated in connection with the Sales Book may be introduced in the Purchase Book, when occasion arises. We shall content ourselves with showing departmental columns in this book of original entry.

In order to ascertain the difference between the sales and purchases of each department, it is necessary not only to secure information regarding the departmental sales, but the corresponding departmental purchases must also be determined. The ruling on page 195 is almost self-explanatory.

Comments.—(*a*) Observe that the purchases, unlike the sales, are of single classes of items. This is due to the fact that wholesalers usually purchase from mills or specialists, and so it is not very usual to find many purchase invoices of large concerns, containing more than a single class of goods.

(*b*) The purchases of each department are charged to the corresponding purchase accounts, as indicated.

(*c*) To offset the debits so resulting, the various creditors' (sellers') accounts are credited in the Ledger.

Purchases, Aug. 6, 19—

			Invoice Extension.		Ribbons.		Laces		Silks.	
	35	The Eureka Mills. 2/10, n/60								
		2,000 yd. No. 10 Ribbon . $.75	1,500	00						
		2,000 yd. No. 5 Ribbon . .40	800	00						
		5,000 yd. No. 66 Ribbon . 1.00	5,000	00	7,300	00				
			7,300	00						
		10								
	38	American Mills. On acct.								
		2,000 yd. No. 99 Silk.... 1.10	2,200	00						
		1,500 yd. No. 87 Silk.... .90	1,350	00						
		1,000 yd. No. 80 Silk.... 1.50	1,500	00						
		2,000 yd. No. 85 Silk.... .70	1,400	00					6,450	00
			6,450	00						
		15								
	42	Norton Mills. On acct.								
		3,000 yd. No. 25 Lace.... .75	2,250	00						
		2,000 yd. No. 75 Lace.... 2.50	5,000	00						
		800 yd. No. 54 Lace.... 2.00	1,600	00			8,850	00		
			8,850	00						
		19								
	45	Arlington Mills. On acct.								
		5,000 yd. No. 42 Ribbon . .35	1,750	00						
		2,500 yd. No. 55 Ribbon . 1.75	4,375	00	6,125	00				
			6,125	00						
		26								
	50	The Fullerton Mills 2/10, n/30								
		1,000 yd. No. 80 Silk.... 1.50	1,500	00						
		1,500 yd. No. 99 Silk.... 1.10	1,650	00					3,150	00
			3,150	00						
		31								
	30	Ribbons Pur., Dr., total for month			13,425	00				
	32	Laces Pur., Dr., total for month					8,850	00		
	34	Silks Pur., Dr., total for month							9,600	00

Questions

1. What benefits result from departmentalizing the Purchase Book?

2. Prove that the posting from this Purchase Book results in equal debits and credits.

3. What special columns would you advise for Mr. Purse's business? (Exercise 12*B*, page 41.)

4. How can you ascertain the total of all merchandise purchased during the month?

Exercise 35A

Employing a departmentalized Purchase Book. show the entries therein for the purchases of Exercise 21*D*, page 148.

Exercise 35B

Show the entries in a departmentalized Purchase Book for the purchases of Exercise 8*D*, page 141.

Controlling Accounts

The use of special columns in books of original entry amply justifies itself. We have already seen how the employment of such additional columns produces a desirable segregation of like items, and also how it minimizes the volume of posting necessary. We are now about to learn how the employment of such special columns makes possible the use of one of the most important improvements introduced by modern accounting.

36. Accounts Receivable Account

Assume that at the end of the first month of business the following tabulation truly represents what our customers owe us. You will notice that in the aggregate they owe us $4,015.00, or as the bookkeeper might say, Accounts Receivable equal $4,015.00.

John Smith	$ 200.00
Baldwin & Co	500.00
Fount & Co.	1,000.00
H. Jackson	300.00
John Paige	150.00
Wm. Sumner	400.00
Cleary Bros	615.00
A. Philips	50.00
V. Robinson	600.00
Rand Bros	200.00
	$4,015.00

In actual practice the number of accounts, as you know, might be many more. Concerns that have hundreds of such customers' accounts

on their books find it convenient to place in a separate Ledger, called the Sales Ledger, the Customers' Ledger or sometimes the Accounts Receivable Ledger, all accounts dealing with their customers. When it is desirable to ascertain how much individual customers owe, this Ledger is referred to; and when it is desired to ascertain how much all customers owe us in the aggregate, it is necessary to make a list of all the balances in this Ledger, in order to ascertain that fact, or rather, we should have said, it *was* necessary to proceed in this manner, until recently.

Nowadays, the up-to-date bookkeeper employs a very useful device by means of which the total of Accounts Receivable may easily and accurately be ascertained. We are about to illustrate the method by means of which this important information is obtained.

Theoretically, a new account might be opened, styled, if you please, Accounts Receivable. This account might be debited to correspond to all the debits found in the individual accounts of the different customers. Similarly, this account might be credited in the aggregate to correspond to the individual credits in the separate customers' accounts in the special Ledger to which we have already referred. The question now arises, how may this summary Accounts Receivable be so debited and so credited, without entailing much additional labor? For we take it as a fact that the student realizes the value of having such a summary account by means of which he could save himself the labor of tabulating all the balances of all the accounts in the separate Customers' Ledger.

This Accounts Receivable account would be substituted in the Ledger for the customers' accounts which hitherto were entered there, but which now appear, for convenience, in a separate Ledger. The first Ledger is now called the General Ledger, while the other, a subsidiary Ledger, is styled Sales Ledger or Customers' Ledger.

The appearance of this Customers' Summary account, corresponding to the schedule of individual balances shown on the previous page, might be as follows:

Accounts Receivable

19—						19—					
Jan.	31	S.B.	7	14,890	00	Jan.	31	C.B.	2	8,050	00
							31	J	4	2,825	00

You are directed to notice, please, five statements regarding this Accounts Receivable account.

(*a*) The balance is $4,015.00, corresponding to the sum of all the balances in the Customers' Schedule.

(*b*) The debit, $14,890.00, is evidently taken from page 7 of the Sales Book.

(*c*) The credit of $8,050.00 came from page 2 of the Cash Book, while the other credit of $2,825.00 was posted from page 4 of the Journal. You might also notice that this summary account is debited from exactly the same source from which the individual accounts are debited, and credited in a corresponding manner.

(*d*) The monthly total from the Sales Book could easily be ascertained and could easily be posted to the debit side of this Accounts Receivable account. It will soon be shown that the other totals are obtained just as easily.

(*e*) The account appears in the General Ledger, of course.

The following illustration clearly indicates what modification of the Cash Book is necessary in order to make available information as to the total amount to be canceled in customers' accounts as a result of receipts from them during the current month:

Cash Receipts

19—		L. F	Account to be Credited.	Explanation.	Accounts Receivable.		Discount on Sales.		General.	
Jan.	2	3	Frank Johnson	Investment					15,000	00
	5	8	Notes Payable	Dis. my 60-day note					7,000	00
	10	5	John Smith	On acct.	600	00			600	00
	11	√	T. Taylor	Cash Sales					250	00
	15	2	Fount & Co.	Inv. 1/8, less 2%	1,250	00	25	00	1,225	00
	17	9	Notes Rec.	Dis. Smith's note 1/14					500	00
	18	√	Brant & Tate	Cash Sale					200	00
	21	4	H. Jackson	On acct.	1,200	00			1,200	00
	25	2	Fount & Co.	Inv. 1/15, less 2%	5,000	00	100	00	4,900	00
	31	9	Notes Rec.	F. & C. note 1/28					2,500	00
		10	Accts. Rec., Cr.	Total	8,050	00				
		14	Dis. on Sales, Dr.	Total			125	00		
		2	Cash, Dr.,	Total Receipts					33,375	00

Comments.—(*a*) John Smith, who paid us on January 10, was allowed no discount, so we entered $600.00 into both the Accounts Receivable and the General columns.

(*b*) To show that on the 15th of January, Fount & Co. paid us

$1,225.00 to cancel a debt of $1,250.00, note how the transaction was recorded.

(*c*) The payment received from H. Jackson is similar to the Smith transaction, while both Fount & Co. transactions are similar to each other.

(*d*) Observe that the actual amount of cash received is entered into the third money column.

(*e*) Corresponding to the transaction of January 15, we might have the following Journal entry:

Cash	$1,225.00	
Dis. on Sales	25.00	
Fount & Co.		$1,250.00

Thus, the posting from this new Cash Book is clearly indicated. Fount & Co. is to be credited for the full amount canceled, Discount on Sales debited for the allowance, and Cash debited for the net amount.

(*f*) Instead of individual postings, we now have summary or total postings. Hence, Discount on Sales is to be charged for the total of its column, and Accounts Receivable, in the General Ledger, credited for the total of the first column. Corresponding to this total credit to Accounts Receivable, the individual customers are credited in their respective accounts in the Sales or Customers' Ledger.

In order to obtain the total credit to the Accounts Receivable account as a result of Journal entries, the formal Journal will have to be modified somewhat. The illustration on page 200 makes this clear.

Comments.—(*a*) The rulings of the Journal shown are, obviously enough, different from the rulings to which the student has become accustomed. But there will be no greater difficulty in comprehending this form than there was in understanding the special sales books and cash books previously introduced.

(*b*) This Journal consists, essentially, of the original two money columns, now separated from each other, and the addition of a second credit column. The items which appear in the first money column are those which would appear in the debit column of the ordinary Journal.

(*c*) In the General column on the credit side appear those items which would appear in the credit column of the ordinary Journal, except those which represent credits to customers. These are taken out and segregated in the second money column, here labeled "Accounts Receivable" column. The sum of the items in the two credit columns

Journal, Jan. 19—

General.		L. F.		L.F.	General.		Accounts Receivable.	
			9					
75	00	6	Sales					
			John Smith	15			75	00
			Ret. 75 yd. No. 34 Ribbon $1.00					
			15					
250	00	9	Notes Rec.					
			John Smith	15			250	00
			His 30-day note on acct. dated 12/14					
			20					
80	00	19	Jasper King					
			Purchases	20	80	00		
			Ret. 200 yd. No. 50 Ribbon 40c.					
			28					
1,900	00	9	Notes Rec.					
			Fount & Co.	2			1,900	00
			Their 30-day note on acct.					
			30					
300	00	19	Jasper King					
			Notes Pay.	8	300	00		
			My 30-day note on acct.					
			31					
600	00	9	Notes Rec.					
			T. Taylor	4			600	00
			His 30-day note on acct.					
			31					
2,700	00	21	Robson Mills					
			Notes Pay.	8	2,700	00		
			My 1-mo. note on acct.					
			31					
			Accts. Receivable, Cr., Total	8	2,825	00	2,825	00
5,905	00				5,905	00		

is exactly equal, of course, to the sum of all the items in the single debit column.

(*d*) The separation of the Accounts Receivable column items enables the bookkeeper to ascertain the total credit to the accounts of all customers combined. The total of this column can then be posted to the summary Accounts Receivable account.

(*e*) We are now in a position to see how we were enabled to post from the Cash Book and from the Journal to the credit side of the Accounts Receivable account shown on page 197. This General Ledger account is called a summary account, because it summarizes the many individual accounts which appear in the Subsidiary or Auxiliary Ledger, the Sales Ledger. For the same reason, it is also called a Controlling account.

(*f*) For the present, it is sufficient that we regard the Controlling account as a convenient means of summarizing the details of the Subsidiary Ledger. In our more advanced studies, we shall undoubtedly learn of other uses of such controlling accounts.

Questions

1. What function is served by the Accounts Receivable account in the General Ledger?
2. How is it that the Ledger is " in balance " despite the removal of accounts with customers?
3. Explain how it is that the keeping of two Ledgers does not involve more work than the keeping of a single Ledger.
4. Tell how to post to the General Ledger and to the Customers' Ledger from the Cash Book and from the Sales Book.
5. Prove that equal debits and credits result when the special forms introduced in this section are employed.
6. Does your proof hold in view of the fact that you post from the credit side of the Cash Book to the debit side of individual customer's accounts in the Sales Ledger and to the debit side of Accounts Receivable account in the General Ledger? Explain fully.
7. Maintain your argument in reference to posting from the Journal.
8. What is a controlling account?

Exercise 36

1. Employing the Cash Book and the Journal introduced in this section, record the cash receipts and all the Journal entries resulting from the transactions of Exercise 20*C*, page 135.
2. Close the Cash Book and the Journal.
3. Show the Accounts Receivable account resulting from the foregoing transactions. The total sales amounted to $1,000.00.

37. Accounts Payable Account

Just as we find it very useful to employ a controlling account for the balances due us from customers, we find it desirable to employ a corresponding account to summarize our obligations to creditors, the Accounts Payable account. The Accounts Payable account, like the Accounts Receivable account, is in the General Ledger. Just as the latter account displaced the individual customers' accounts in the General Ledger, so does Accounts Payable account take the place of the individual creditors' accounts. Finally, to correspond to the subsidiary Sales Ledger containing all accounts with customers, we employ the auxiliary Purchase or Creditors' Ledger, for all accounts with those from whom we buy.

The Accounts Payable account, corresponding to the Accounts Receivable account on page 197, might be as follows:

Accounts Payable

19—						19—					
Jan.	31	C.B.	10	17,300	00	Jan.	31	P.B.	4	22,995	00
		J	2	925	00						

Note that: (1) the credit of $22,995.00 represents the total purchases for the month of January, as shown on page 4 of the Purchase Book; (2) a cancellation of $17,300.00 by means of cash payments; (3) a further reduction of $925.00 from the Journal probably due to return by us and the issuing of our promissory notes; (4) that we still owe our creditors $4,770.00.

The individual accounts corresponding to the controlling account, which are now in the Purchase Ledger, are as follows:

Trombone & Larkins	$2,000.00
Samuel Blaine & Co.	655.00
Roger Caine	1,200.00
N. Y. Produce Co.	915.00
	$4,770.00

You should not be surprised to find the total of all the balances in the Purchase Ledger exactly equal to the balance of the single account in the General Ledger, which summarizes or controls them, the Accounts Payable account.

Hereafter, when we speak of a Trial Balance, we shall mean a list of all the balances of the General Ledger. The individual accounts

with customers and creditors will no longer be included, their places in the Trial Balance being taken by Accounts Receivable and Accounts Payable, respectively. It will also be necessary to prepare two schedules to supplement this Trial Balance:

(*a*) A schedule of Accounts Receivable, taken from the Sales Ledger, arranged like the list shown on page 196, the total of which must be equal to the balance of the Accounts Receivable account of the Trial Balance.

(*b*) A schedule of Accounts Payable, taken from the Purchase Ledger, arranged like the list shown on page 202, the total of which must be equal to the balance of Accounts Payable account of the Trial Balance.

It is now necessary to show what modifications must be made in the form of the Cash Book and of the Journal so as to furnish us with the postings for the controlling account.

The credit side of the Cash Book is as follows:

Cash Disbursements

19—		L.F.	Account to be Debited.	Explanation.	Accounts Payable.		Discount on Purchases.		General.	
Jan.	2	4	Expense	Rent					150	00
		4	Expense	Printing and Stationery					53	75
	4	7	Furniture & Fixtures	Safe and office fixtures					320	00
	7	11	Trombone & Larkins	Inv. 1/2, less 2%	3,000	00	60	00	2,940	00
		4	Expense	Salaries					80	00
	10	13	Samuel Blaine & Co.	On acct.	5,000	00			5,000	00
	14	4	Expense	Salaries					80	00
	18	10	Roger Caine	Inv. 1/11, less 2%	1,850	00	37	00	1,813	00
	19	8	N. Y. Produce Co.	Inv. 1/12, less 2%	1,200	00	24	00	1,176	00
	21	4	Expense	Salaries					95	00
	23	8	N. Y. Produce Co.	Inv. 1/13, less 2%	650	00	13	00	637	00
	27	13	Samuel Blaine & Co.	Inv. 1/18, less 2%	3,100	00	62	00	3,038	00
	28	4	Expense	Salaries					95	00
	30	11	Trombone & Larkins	On acct.	2,500	00			2,500	00
	31	3	Accounts, Payable, Dr	Total	17,300	00				
		5	Dis. on Purchases, Cr	Total			196	00		
		2	Cash, Cr.	Total disbursements					17,977	75
			Balance*						15,397	25
									33,375	00

Comments.—(*a*) On January 10, we paid Samuel Blaine & Co., and on January 30, Trombone & Larkins, without deducting discounts. Note that the amounts paid appear in the first and third columns.

(*b*) All the other payments to creditors resulted in a gain to us as is shown by the fact that the amounts extended into the General column are less than the respective debts canceled as shown by the Accounts Payable column.

(*c*) The total disbursement of cash appears only in the General column. The student must be cautioned, however, or else he may be led to believe that this arrangement is universal. It is true of the form shown, but may differ in other cases.

(*d*) The total of the Discount on Purchases column must be posted to the credit side of its account, because it is a gain to the business, and the student knows that all gains appear on the credit side of accounts. The posting to the credit side is also disclosed when we analyze any single transaction. For example, the item of the 18th:

Roger Caine (Accts. Pay.)	$1,850.00	
Cash		1,813.00
Discount on Purchases		37.00

The same fact is revealed by each of the other similar transactions and hence the procedure.

(*e*) It is evident that the total of the Accounts Payable column must be charged to the controlling account in the General Ledger, while the individual items are charged to the separate accounts in the Purchase Ledger.

We saw how the Journal was modified to provide a ready means of posting totals to Accounts Receivable account. By adding another column to the debit side, a similar provision is made for Accounts Payable. The form on page 205 will be easily understood.

Comments.—(*a*) A reference to the comments applicable to the simpler Journal illustrated on page 200 will help you to understand the more practical form shown on page 205.

(*b*) Note that only returns to us and by us, and notes issued and received by us, appear in the Journal. Even some of these items are excluded when additional special books are employed. The principle involved is this: if the number of transactions warrant it, some special form of original entry book or Journal should be introduced. Thus, in many cases, only original investments of the proprietor and subsequent special or final adjustments are entered in the Journal.

(*c*) Observe that corresponding to the credits to Notes Payable

Journal, Jan., 19—

Accounts Payable		General		L.F.		L.F.	General.		Accounts Receivable.	
					9					
		75	00	6	Sales					
					John Smith	15			75	00
					Retd. 75 yds. No. 34 ribbon $1.00					
					10					
60	00			21	Alan Thompson					
					Purchases	5	60	00		
					Ret. 75 yds. No. 32 ribbon 80c.					
					15					
		250	00	9	Notes Rec.					
					John Smith	15			250	00
					His 30-day note on acct. dated 1/14					
					16					
500	00			21	Alan Thompson					
					Notes Pay.	10	500	00		
					My 30-day note on acct.					
					18					
65	00			22	Frank Brown					
					Purchases	5	65	00		
					Ret. 100 yds. No 68 ribbon 65c.					
					19					
300	00			23	H. M. Loran & Co.					
					Notes Pay.	10	300	00		
					My 30-day note on acct.					
					31					
					Accts. Rec., Cr., Total	8	325	00	325	00
925	00	925	00	7	Accts. Pay. Dr., Total					
		1,250	00				1,250	00		

account of $500.00 and $350.00, respectively, Accounts Payable account was charged. Also, the Accounts Payable account was debited for $60.00 and $65.00, respectively, to offset the credits of the same amounts to Purchases account.

(*d*) As previously explained, the General columns on both the debit and the credit sides are reserved for items which are posted to individual accounts in the General Ledger.

(*e*) While Accounts Payable account is debited for the sum of all the items appearing in its columns, the individual accounts in the Purchase Ledger are charged for the specific items chargeable against the individual creditor. This procedure corresponds to the entries posted to Accounts Receivable account and the separate customers' accounts in the Sales Ledger.

(*f*) Finally, it should be clear that, just as in the case of Accounts Receivable, the addition of extra columns in the Cash Book and in the Journal makes possible the keeping of an Accounts Payable account in the General Ledger, without the burden of any appreciable extra work.

Questions

1. What function is served by the Accounts Payable account in the General Ledger?
2. Justify the use of the term "controlling or summary account" as applied to the Accounts Receivable account and to the Accounts Payable account.
3. Does the employment of Accounts Payable account involve any more work than would be required if it were not used? Explain fully.
4. How is it that the Trial Balance will "prove" despite the absence of accounts with creditors?
5. Explain the relationship between the General Ledger and the subsidiary or auxiliary Ledgers.
6. Tell how to post to the General Ledger and to the Purchase Ledger from the Cash Book and from the Purchase Book.
7. Prove that equal debits and credits result from posting the items which are shown in the Cash Book, page 203.

Exercise 37A

1. Employing the special forms of Cash Book, Journal, Sales Book and Purchase Book, write up or enter the transactions of Exercise 20*D*, page 147.
2. Close the books of original entry and post to the General Ledger, the Sales Ledger and the Purchase Ledger.
3. Take a Trial Balance and prepare schedules of Accounts Receivable and of Accounts Payable.

Exercise 37B

1. Employing the special forms of Cash Book, Journal, Sales Book and Purchase Book, write up or enter the transactions of Exercise 26*D*, page 149.

2. Close the books of original entry and post to the General Ledger, the Sales Ledger and the Purchase Ledger.

3. Take a Trial Balance and prepare schedules of Accounts Receivable and of Accounts Payable.

38. The Balance Sheet

The reader has already become familiar with the method of determining the condition of the business at the end of any given period. He learned that the so-called Statement of Assets and Liabilities was a formal means employed for the purpose of obtaining the net capital of an organization. He may recall that this statement is sometimes referred to as the Statement of Resources and Liabilities. It is also sometimes called a "Statement of Affairs" or a "Statement of Condition," though accountants restrict the last two terms to special cases with which we need not now concern ourselves.

The "Balance Sheet" is the technical term employed by many practitioners for the exhibit which to all intents and purposes is identical with the "Statement of Assets and Liabilities." If there is any difference between the two statements the student will be unable to ascertain the fact as is evident from the following illustrations:

1. Statement of Assets and Liabilities.

Cash	$1000.00	Accts. Pay.	$1850.00
Accts. Rec.	2000.00	Net Capital	3250.00
Mdse. Invty.	1800.00		
Fixtures	300.00		
	$5100.00		$5100.00

2. Balance Sheet.

Cash	$1000.00	Accts. Pay.	$1850.00
Accts. Rec.	2000.00	Net Capital	3250.00
Mdse. Invty.	1800.00		
Fixtures	300.00		
	$5100.00		$5100.00

The student will readily conclude that there is no apparent difference between the Statement of Assets and Liabilities and the Balance Sheet. If this is so, why the present discussion? Because there is a technical distinction between the two. Whereas the Statement of Assets and Liabilities may be prepared from any set of books, or, for that matter, from no books at all, provided the constituent items may be learned or ascertained, the Balance Sheet is regarded as the result of properly arranging the balances found in a double entry Ledger after "closing the books." Let us assume that after setting up all accruals and inventories and after transferring all the accounts which show losses or gains to the Profit and Loss account and after transferring the balance of the Profit and Loss account to the Proprietor's account, the following balances still remain:

	Dr.	Cr.
Thomas Smith, Capital		$6,850.00
Mdse. Inventory	2,600.00	
Cash	1,875.00	
Accts. Receivable	4,064.00	
Notes Receivable	1,000.00	
Furniture and Fixtures	2,375.00	
Expense Inventory	108.00	
Accts. Payable		2,672.00
Notes Payable		2,500.00
	$12,022.00	$12,022.00

Bookkeepers obtain a list of the balances similar to the above, after closing the books, for the purpose of assuring themselves, when their task is completed, that the books are "in balance." This list of balances is sometimes referred to as the "Proof Trial Balance." After the items in this Proof Trial Balance are arranged in a systematic way, they constitute the so-called Balance Sheet.

Practical men are not much concerned with questions of terminology. They are indifferent as to the name which is applied to the exhibit which we are at present studying. And so, though it is better to use the term Balance Sheet, we may continue, if we wish, to call it a Statement of Assets and Liabilities.

The purpose of the Balance Sheet is similar to that of the Statement of Assets and Liabilities. Its function is to show all the assets and all the liabilities and the net capital. By a very simple expedient, the items of a Balance Sheet may be arranged so as to disclose not only

the net capital of the business, but also to indicate the " healthfulness " of the organization. This result is obtained by grouping the assets and the liabilities into two divisions as follows:

Balance Sheet of Thomas Smith

June 30, 19—

Assets			Liabilities and Capital		
Current Assets:			Current Liabilities:		
Cash	$1,875.00		Accounts Pay.	$2,672.00	
Mdse. Inv.	2,600.00		Notes Pay.	2,500.00	
Accts. Rec.	4,064.00				
Notes Rec.	1,000.00				
Total Current Assets		$9,539.00	Total Current Liabilities		$5,172.00
			Capital		6,850.00
Other Assets:					
Fur. and Fix.	$2,375.00				
Expense Inv.	108.00				
Total Other Assets		2,483.00			
		$12,022.00			$12,022.00

The foregoing illustration serves to introduce the student to the modification of the ordinary Balance Sheet for the purpose already mentioned.

It is easily seen that, if we include merchandise on hand and assume that it is in a marketable condition, Thomas Smith has over $9,500.00 with which to meet current liabilities of about $5,100.00. This test of the relationship between current assets and current liabilities is constantly employed by credit men in deciding the maximum amount to sell customers on account and by bank officials in determining how much to lend depositors.

For our present purposes it is sufficient that all the assets on the balance sheet be divided into the two divisions shown, namely Current Assets and Other Assets. It is hardly necessary to label liabilities correspondingly, but it is good practice to begin to do so now even though other liabilities are as yet not employed by us. Among Current Assets, Cash should be listed first and the items under the same caption in the order of what has been called their liquidity, that is, the time required to convert them into cash under usual circumstances. Thus, merchandise could be sold for cash; Accounts Receivable could be

collected by offering larger cash discounts, while Notes Receivable, with fixed maturities, would probably not be collected until due.

It is well to caution the student against accepting the divisions here shown, or the order herein described, as universal. Many practitioners employ other divisions and other orders, but the description above will suffice for present purposes.

Questions

1. What is a Balance Sheet?
2. Distinguish between a Balance Sheet and a Statement of Assets and Liabilities.
3. Why is it important to separate assets into Current Assets and Other Assets?
4. What is the relationship between a Proof Trial Balance and a Balance Sheet?
5. Which asset is ordinarily more liquid or current, merchandise or an account receivable? Why?

Exercise 38A

Prepare a Balance Sheet corresponding to the Statement of Assets and Liabilities shown on page 54.

Exercise 38B

Prepare a Balance Sheet based upon the Trial Balance of Exercise 14*A*, page 49, Problem 1. Inventories: Mdse. $1,100.00; Expense $75.00.

Exercise 38C

Prepare a Balance Sheet based upon the Trial Balance of Exercise 24*A*, pages 98, 99, Problems 5 and 6.

Exercise 38D

Prepare a Balance Sheet based upon the Trial Balance of Special Exercise No. 1, page 151.

Exercise 38E

Prepare a Balance Sheet based upon the Trial Balance of Special Exercise No, 2, page 151.

39. Income and Profit and Loss Statement

We have already seen that the Profit and Loss Statement enables the bookkeeper to ascertain the net profit or the net loss of the business. We have also seen that this information should be incorporated in the books by opening a Loss and Gain account in the Ledger through the process known as "closing the books." We are now ready to learn how to prepare a more popular form of the Profit and Loss Statement, the so-called Income **Statement** or **Profit and** Loss **and** Income **Statement.** The difference between the Profit and Loss statement which the student has already prepared, and the new statement about to be introduced, will be made clear by the following illustrations:

Profit & Loss Statement
of
Thomas Smith for the year ended December 31, 19—

Inventory on hand at beginning of the year	$1,000.00	
Net purchases during the year	7,500.00	
	8,500.00	
Less present inventory	2,600.00	
Cost of Merchandise sold	5,900.00	
Net sales		$10,200.00
* Profit on sales, carried down	4,300.00	
	$10,200.00	$10,200.00
Profit on sales, brought down		4,300.00
Selling expenses	435.00	
Discount on sales	65.00	
Discount	212.00	
General expenses	380.00	
Salaries	2,200.00	
Discount on purchases		140.00
* Net Profit	1,148.00	
	$4,440.00	$4,440.00

Profit and Loss and Income Statement
of
Thomas Smith for the Year Ended December 31, 19—

Income:		
Net Sales		$10,200.00
Less Discount on Sales		65.00
Net Income from Sales		$10,135.00
Less Cost of Merchandise consumed:		
Original Inventory	$1,000.00	
Purchases during year	7,500.00	
	8,500.00	
Less Present Inventory	2,600.00	
Cost of Merchandise sold		5,900.00
		4,235.00
Less Selling and Administrative Expenses:		
Selling Expenses	$435.00	
General Expenses	380.00	
Salaries	2,200.00	
Total Selling and Administrative Expenses		3,015.00
Gross Profit		1,220.00
Other Deductions:		
Discount	$212.00	
Less Discount on Purchases	140.00	
Other Deductions		72.00
Net Income		$1,148.00

Comments.—(1) It should be noted first of all that the Net Profit obtained by means of the Statement of Profit and Loss is exactly the same as the *Net Income* shown in the Profit and Loss and Income Statement.

(2) The difference is one of form only and the student is advised to familiarize himself with the second of the two forms. The principal argument in its favor is that it is more readily understood by the business man not trained in bookkeeping.

(3) Note that in the second form, discount on sales is deducted from sales so as to give "net income from sales." Symmetry would require that discount on purchases should be deducted from purchases, and indeed, some accountants show discount on purchases in exactly

this way. Many practitioners, however, include the discount on purchases in the manner shown in the Statement of Income and Profit and Loss on certain economic grounds which are discussed in advanced works. In the meantime, the student is advised to accept the form herein shown as correct, and to follow the model in his own practice. The distinction between trade discounts and cash discounts, appropriate in this connection, should be reserved for advanced study.

(4) An important point to be made in this connection is that the form of the statement is hardly as essential as is the correct determination of the amount of the net profit.

(5) The form of the Income Statement is not fixed. In the main, it depends upon the purpose for which it is prepared. Accounting texts should be consulted for illustrations of other forms.

Questions

1. Point out the essential differences between the Profit and Loss Statement and the Income and Profit and Loss Statement.
2. Which do you prefer? Why?
3. Where is the discount on sales shown?
4. Where is the discount on purchases shown?
5. What is the difference between Net Income and Net Profit?

Exercise 39A

Prepare an Income and Profit and Loss Statement corresponding to the Profit and Loss Statement shown on page 51.

Exercise 39B

Prepare an Income and Profit and Loss Statement based upon the Trial Balance of Exercise 14*A*, page 49. For inventories see Exercise 38*B*.

Exercise 39C

Prepare an Income and Profit and Loss Statement based upon the Trial Balance of Exercise 24*A*, pages 98, 99, Problems 5 and 6.

Exercise 39D

Prepare an Income and Profit and Loss Statement based upon the Trial Balance of Special Exercise No. 1, page 151.

Exercise 39E

Prepare an Income and Profit and Loss Statement based upon the Trial Balance of Special Exercise No. 2, page 151.

40. ELEMENTARY COST STATISTICS

The Profit and Loss Statement, the Loss and Gain account, and the Income and Profit and Loss Statement, all result in the net profit or the net loss. Modern business men wish to know not only how

Income and Profit and Loss Statement
of
Thomas Smith for the Year Ended June 30, 19—

Income:			
Net Sales		$10,200.00	
Less Discount on Sales		65.00	
Net Income from Sales		$10,135.00	100%
Less Cost of Merchandise consumed:			
Original Inventory	1,000.00		
Purchases during year	7,500.00		
	8,500.00		
Less Present Inventory	2,600.00		
Cost of merchandise sold		5,900.00	58.2%
		4,235.00	
Less Selling and Administrative Expenses:			
Selling Expenses	435.00		
General Expenses	380.00		
Salaries	2,200.00		
Total Selling and Administrative Expenses		3,015.00	29.7%
Gross Profit		1,220.00	
Other Deductions:			
Discount	$212.00		
Less Discount on Purchases	140.00		
Other Deductions		72.00	1%
Net Income		$1,148.00	11%

much they made during the year, but they want this information in such form as to enable easy comparisons over periods of time. Thus, they like to know how much it costs them to sell one dollar's worth

of goods; how much of general expenses is incurred in order to sell one dollar's worth of goods; and other similar items. One of the best devices for presenting just such information as this is by tabulating the per cents of the various expenses on the basis of sales. For example, if salaries amount to $3,000.00 and total sales are $75,000.00, then, 3,000 divided by 75,000 gives 4%. By securing such percentage for the more important items which enter into the construction of any Income and Profit and Loss Statement, the business man is enabled to test the relative efficiency of one year's operations in terms of previous experiences. The Income and Profit and Loss Statement amended by the addition of such cost statistics or percentage figures is shown on page 214.

Comments.—(1) Observe that the statement is exactly the same as that shown on page 212, save for the addition of the percentages.

(2) By comparing the percentages obtained this year with similar ones obtained during previous years, this year's efficiency in organization and management can readily be tested.

(3) Instead of employing the "Cost of Merchandise Sold" as a base, it is the almost invariable custom of merchants to employ "Net Sales" or "Net Income from Sales" as the divisor or base.

(4) The total of the cost percentages and the Net Income per cent should equal 100%, but if there is any discrepancy, it is due to the dropping of fractions.

(5) The percentages herein included are not the only ones obtainable. The selection of items for which to compute percentages is a matter of choice.

Questions

1. How does the Income Statement shown on page 212 differ from the one on page 214?
2. Which do you consider more useful? Why?
3. Why does a business man want to know how much it costs him to sell a dollar's worth of goods?
4. In 19—, the cost of merchandise sold by a certain concern represented 56% of the net income from sales. A year later the corresponding per cent was 59½. Try to account for the increase.
5. How was 58.2% obtained? (Page 214.)
6. How was 11% obtained? How else might it be obtained?

Exercise 40A

1. A merchant bought goods which cost him 75c. He sold them at **$1.00**. What per cent did he make on his cost? On his sales?

2. The net income from sales amounted to $32,000.00. The cost of sales was $16,900.00, the administrative and selling expenses $4,500.00, other deductions $2,000.00. Find the per cent on sales each figure represents, and the net income per cent.

3. In Problem 2, the rent was $1,800.00, and the advertising cost $720.00. Find how many cents per dollar's sale was represented by the rent and advertising, respectively.

4. In Problem 1, Exercise 4*A*, page 16, the rent was $50.00, and the advertising cost $35.00, both included in the Expense account. Find how many cents per dollar's sale was represented by the rent and advertising, respectively.

5. In Problem 1, Exercise 7*A*, page 25, the rent was $100.00, and the advertising cost $160.00. Find how many cents per dollar's sale was represented by the rent and advertising, respectively.

6. In Problem 1, Exercise 8*A*, page 27, the rent was $100.00, and the advertising cost $180.00. Find how many cents per dollar's sale was represented by the rent and advertising, respectively.

7. In Problem 4, Exercise 24*A*, page 98, the rent was $150.00 and the advertising cost $250.00. Find how many cents per dollar's sale was represented by the rent and advertising, respectively.

Exercise 40B

Prepare an Income Statement with percentages corresponding to the Profit and Loss Statement shown on page 51.

Exercise 40C

Prepare an Income and Profit and Loss Statement for Special Exercise No. 1, page 151. Add such cost statistics as you deem desirable.

Exercise 40D

Prepare an Income and Profit and Loss Statement for Special Exercise No. 2, page 151. Use such cost statistics as you deem desirable.

41. The Working Sheet

For the purpose of preparing final statements, that is, Balance Sheets and Income Statements, both based upon Trial Balances, accountants frequently employ what is known as a Working Sheet. These are constituted essentially of multi-column rulings as follows:

	Trial Balance.		Inventories and Accruals.		Loss and Gain.		Balance Sheet.		

Because it is believed that the bookkeeper will benefit by the use of such Working Sheets, a brief account of them will be given here.

The first two money columns contain the Trial Balance figures. The next two columns are reserved for inventories and for other items which will not now be discussed. The next two columns are used for the purposes of collecting all Losses and Gains. The last two columns contain the Balance Sheet items. A Working Sheet based upon the Trial Balance of Thomas Smith, from which the Balance Sheet and Income and Profit and Loss Statement discussed in this section were prepared, is shown on page 218.

Observations

1. Note that the first column contains the ledger folios corresponding to the accounts listed in the next column.

2. The first two money columns constitute the Trial Balance.

3. The inventories, suitably explained by footnotes, are entered into the next two columns.

4. Balances indicating losses and gains are extended into the next two money columns.

5. The Balance Sheet items are extended into the last two money columns. The net profit, which is exactly the amount necessary to make the Loss column equal to the Gain column, is exactly equal to

Working Sheet of Thomas Smith, December 31, 19—

		Trial Balance.		Inventories and Accruals.		Loss and Gain.		Balance Sheet.	
3	Thos. Smith, Investment		5,702						5,702
5	Mdse. Inventory	1,000		[1] 2,600			1,600	2,600	
6	Mdse. Purchases	7,500				7,500			
8	Cash	1,875						1,875	
10	Accts. Receivable	4,064						4,064	
11	Notes Receivable	1,000						1,000	
12	Furniture and Fixtures	2,375						2,375	
14	Expense	488		[2] 108		380		108	
15	Salaries	2,200				2,200			
16	Discount on Sales	65				65			
16	Discount	212				212			
20	Selling Expenses	435				435			
19	Sales		10,200				10,200		
17	Discount on Purchases		140				140		
21	Accounts Payable		2,672						2,672
22	Notes Payable		2,500						2,500
		21,214	21,214						
	Net Profit					1,148			1,148
						11,940	11,940	12,022	12,022

[1] Mdse. Inventory $2,600 (Schedule I, 5 sheets). [2] Expense Inventory $108 (Schedule II, 2 sheets).

the difference between the Assets and the Liabilities when the liabilities include the net investment. The following formulæ apply:

(a) **Assets − Liabilities = Net Capital**
(b) **Net Capital = Net Investment + Net Profit**

Substituting and transposing, we obtain:

(c) **Assets = Liabilities + Net Investment + Net Profit.**

6. On the basis of a Working Sheet such as the above, the bookkeeper may readily prepare his final statements and the closing entries.

7. It is almost needless to state that in actual practice the Working Sheet, as herein shown, is often considerably modified.

Questions

1. What is a Working Sheet?
2. State the function of the first two money columns.
3. What is the relationship between the Loss and Gain column of the Working Sheet and the Profit and Loss Statement?
4. What other items besides liabilities are carried into the credit money column of the Balance Sheet section?
5. Explain how it is that the difference between the debit and credit columns of the Loss and Gain division is exactly equal to the difference between the debit and credit columns of the Balance Sheet division.

Exercise 41A

Prepare a Working Sheet on the basis of the Trial Balance and inventories of Exercise 26*D*, pages 149–151.

Exercise 41B

Prepare the Profit and Loss and Income Statement and the Balance Sheet on the basis of Exercise 41*A*, above.

Exercise 41C

Prepare a Working Sheet on the basis of the Trial Balance and inventories of Special Exercise No. 1, page 151.

Exercise 41D

Prepare the Profit and Loss and Income Statement and the Balance Sheet on the basis of Exercise 41*C*, above.

42. SUMMARY OF ADVANCED BOOKKEEPING

Kind of Transactions.—We learned that just as in so-called elementary bookkeeping, as well as in the so-styled intermediate bookkeeping, advanced bookkeeping deals with the selfsame transactions. Goods are bought and sold; payments are made and received; notes are issued and redeemed; expenses are incurred, losses suffered and profits realized. The difference between what we called advanced bookkeeping and the type which preceded it consists in the use, by the more advanced work, of certain labor-saving forms whereby is minimized the necessary burden of recording the transactions which occur. In fact, the basis of advanced bookkeeping is to be found in the endeavor to perform the work of the bookkeeper more expeditiously and easily.

Columnar Books.—In order to facilitate posting to the Ledger, books of original entry may be modified by the addition of such extra columns as any given situation suggests. Thus, posting of totals rather than of individual component items is made possible by: (*a*) Expense column on the credit side of the Cash Book; (*b*) Columns for Discount on Purchases and Discount on Notes on the same side of the Cash Book; (*c*) Columns for Discount on Sales and Cash Sales on the debit side of the Cash Book; (*d*) Departmental columns in the Sales Book and in the Purchase Book.

Controlling Accounts.—The addition of special columns in books of original entry makes possible the keeping of Controlling Accounts. The most common examples of such accounts are Accounts Receivable account and Accounts Payable account. These summary accounts, respectively, displace individual customers' and creditors' accounts in the Ledger. The customers' accounts are then segregated in another book called the Sales Ledger or Customers' Ledger, while the creditors' accounts are kept in the Purchase or Creditors' Ledger. The original Ledger, now much reduced in size, is called the General Ledger.

The Trial Balance now refers to the accounts in the General Ledger. It is evident that the task of taking a Trial Balance is greatly simplified because so many fewer accounts are involved. A Schedule of Accounts Receivable is then prepared, consisting of the balances found in the Sales Ledger, and its total must agree with the balance of the Accounts Receivable account shown in the Trial Balance. A similar Schedule of Accounts Payable, made up of all the balances in the Purchase Ledger. is prepared, and it must agree with the balance of the Accounts Payable account of the General Ledger.

The Balance Sheet.—In the more elementary part of the text, the student learned how to prepare a Statement of Assets and Liabilities for the purpose of disclosing the net capital of an enterprise. In the present chapter he was shown how to prepare a similar statement, the Balance Sheet. For all practical purposes, the two forms are identical, but the technical distinction which was pointed out disclosed the fact that the Balance Sheet was prepared on the basis of the balances of the accounts which remained after a Double Entry set of books had been closed, while the Statement of Assets and Liabilities could be prepared from any books or from no books. The function of the two statements is identical; a Statement of Assets and Liabilities is drawn up from information secured from books or from outside sources or partly from books and partly from other sources; though the business man frequently calls this statement a Balance Sheet, the student, especially at examinations, should be careful to restrict the term "Balance Sheet" to the statement based upon properly closed double entry books.

The Income Statement.—At the time that the Statement of Assets and Liabilities was first taught, how to prepare a Profit and Loss Statement was also shown. In the present chapter there was shown how to prepare another form which also had for its purpose the determination of the progress of business, the so-called Income and Profit and Loss Statement often called the Income Statement. The newer form is growing in popularity and it appears to be favored by the business man.

The Working Sheet.—As an aid in the preparation of final statements, a so-called Working Sheet may be employed. This arrangement consists of a Trial Balance sheet to which extra money columns have been added. The additional money columns are used in pairs and into them are extended, from the first two or Trial Balance columns, losses and gains, assets and liabilities, etc. The Working Sheet is a valuable aid in the construction of the Balance Sheet and the Income Statement, because the suitably labeled columns clearly indicate where the various items belong and the difference between the loss and gain columns shows the net profit or the net loss. This sheet also affords us a convenient means of analyzing items of the Trial Balance, and demonstrates the truth of the proposition elsewhere advanced,[4] namely:

Every account having a *debit* balance is either

(*a*) An *asset* (cash, or convertible into cash, something of value *owned* by the business), or

(*b*) A *loss* (expense or cost).

[4] See page 80.

Every account having a *credit* balance is either

(*a*) A *liability* (*owed* by the business), or

(*b*) A *gain* (profit or proceeds).

There is likewise demonstrated by means of the analysis, that whereas every Trial Balance item is extended into *either* the Balance Sheet or the Profit and Loss division, inventories and accruals, representing items not yet in the books, must result in equal debits and credits, so as not to disturb the equilibrium shown by the Trial Balance, and accordingly they affect *both* the Balance Sheet and the Profit and Loss Statement.

Finally, the proprietor's balance, which from one point of view is surely no liability (for how can the business owe itself?) is easily understood when we recall that we have consistently adhered to a single point of view, that is, we have been recording transactions as they affected the business. The business is liable to the proprietor, in a bookkeeping sense if not in a legal sense, for the proprietor's net investment. Hence it is that the proprietor's balance is shown among the liabilities. This solution is also derived from a different angle by those who are at all familiar with algebraic equations:

Assets minus Liabilities equal Proprietorship,

$$(A - L = P).$$

Transposing we get:

$$A = L + P.$$

Interpreting the last equation, we readily see that the asset column of the Working Sheet should equal the sum of the liabilities and the proprietorship (net investment plus net profit or minus net loss), and that for bookkeeping purposes the proprietor's balance may be regarded as a liability in analyzing the meaning of the Ledger balances, though it would be incorrect to do so in preparing the Balance Sheet.

Questions

1. Differentiate between elementary, intermediate and advanced bookkeeping.
2. Suggest three special columns for the debit side of the Cash Book.
3. Suggest three special columns for the credit side of the Cash Book.
4. Suggest the titles of the special columns of a Sales Book which would be adapted to the use of a drug store.
5. Suggest the special columns in the Purchase Book which would, in your opinion, answer the requirements of a department store.

6. Justify the use of the term "Accounts Receivable" as a controlling account.

7. Explain the use of Accounts Payable.

8. Differentiate between a Statement of Assets and Liabilities and a Balance Sheet.

9. Differentiate between an Income and Profit and Loss Statement, and the more elementary Profit and Loss Statement which was presented in the chapter on Elementary Bookkeeping.

10. Show how the use of special columns in the Cash Book does away with the awkward entry in the simpler form of Cash Book, for the purpose of recording a note of ours discounted at the bank.

Exercise 42A

1. Enter the transactions of Exercise 26*B*, page 128, employing a Sales Book, Purchase Book, Columnar Journal, and Columnar Cash Book. Provide on the receipt side of the Cash Book for the following columns: Accounts Receivable, Discount on Sales, Net, Discount on Notes, and General; on the disbursement side, Accounts Payable, Discount on Purchases, Net and General. Employ three Ledgers, a General Ledger, a Sales Ledger and a Purchase Ledger. There are to be four columns in the Journal: Accounts Payable and General on the debit side and General and Accounts Receivable on the credit side.

2. Close the books of original entry resulting from "1," above.

3. Post to the three Ledgers.

4. Prepare a Trial Balance of the General Ledger and Schedules of the Sales Ledger and of the Purchase Ledger.

5. Prepare a Working Sheet based upon the Trial Balance, above.

6. Prepare an Income and Profit and Loss Statement. (Use same inventories as in Exercise 26*B*, page 129.)

7. Prepare a Balance Sheet.

Exercise 42B

Repeat instructions contained in Problems 1 to 7 inclusive, of Exercise 42*A*, for Exercise 26*C*, page 137.

PART IV

PARTNERSHIP BOOKKEEPING AND ACCOUNTING

We have already seen that the principles of double entry bookkeeping are of universal application, irrespective of the form of the original entry book which may be employed to record transactions. We are about to learn that the principles which govern the recording of transactions which occur in a sole proprietorship remain unchanged when ownership reposes in a partnership.

PARTNERSHIP BOOKKEEPING AND ACCOUNTING

Thus far in our work we have been keeping books of sole proprietorships, that is, of concerns owned by individuals. Many enterprises, however, are conducted by two or more individuals acting as partners, and it becomes necessary for us to learn how to keep the books of such organizations.

The first questions which concern us do not involve bookkeeping. Why should two or more people combine for the purpose of carrying on an enterprise or business jointly? The history of commerce shows that such partnerships, as they are called, are of considerable antiquity. It seems that very early in the development of business it was realized that a person could not be in more than one place at one and the same time, and that human beings were subject to interruption of their activities due to illness and other causes, and so, for the purpose of giving continuity to an enterprise, it was found desirable to combine the activities of two or more individuals. Moreover, everything else being equal, two people could command greater resources and greater ability than the same individuals acting independently of each other. But with the advantages which accrue as a result of partnerships there are certain serious handicaps. These questions of advantages and disadvantages are more fully considered in law courses, but it is well for us here to summarize the disadvantages very briefly.

The death of a partner interrupts the partnership, which, in the absence of a specific agreement to take care of such an emergency, means dissolution. This is also true in case of the bankruptcy or insanity of an individual member of the partnership. Ordinarily, any one partner can bind all his copartners to a contract which may eventually result in loss. Finally, friction is likely to result in loss and detriment to the organization when the management reposes in more than one person.

It is usual to commence partnership relations by entering into a formal agreement which is frequently called Articles of Copartnership. The drawing up of such agreements should invariably be left to a lawyer, because experience is replete in examples of serious loss resulting from amateur handling of such legal papers. Though it is not intended to

teach the student how to draw up partnership contracts, it is desirable that he familiarize himself in a general way with the content of an ordinary copartnership agreement. The following is taken from "Elements of Accounting," pages 87–88.

43. ARTICLES OF COPARTNERSHIP

THESE ARTICLES OF AGREEMENT, made and entered into this second day of January, one thousand nine hundred and ——, by and between John Doe, of the city of New York, party of the first part, and Richard Roe, of the same place, party of the second part,

WITNESSETH, as follows:

1. The said parties above named hereby agree to become partners in the retail shoe business, located in the City of New York under the firm name and style of Doe & Roe, said partnership to continue for five years from the date hereof.

2. The capital of the said partnership shall consist of eight thousand dollars ($8,000.00), in cash, contributed as follows: John Doe to contribute five thousand dollars ($5,000), and Richard Roe to contribute three thousand dollars ($3,000). The said contributions are to be employed as a common fund in the conduct of the business, for their mutual benefit and advantage.

3. During the continuance of the partnership herein mentioned, each of the partners shall give his time, skill, and attention to the business, and exert his best powers for their joint interest, profit, benefit and advantage, and truly buy, sell and trade with their joint stock, and the increase thereof, in the said business. They shall bear, pay and discharge equally between them all expenses of the business; all losses and all gains arising from the conduct of the business shall be borne and divided equally between them.

4. For the time, skill and attention given to the business John Doe shall receive the sum of one hundred dollars ($100.00) per month, and Richard Roe the sum of seventy-five dollars ($75.00) per month, said sum, in both cases, to be charged to Salaries account.

5. Neither partner shall draw more than one hundred dollars ($100.00) per month, in addition to the salary herein stipulated and allowed, and such drawings shall be charged to their respective Personal accounts. If at the end of each year it is found that either partner's withdrawals exceed his share of the net gain for the said year, then he shall immediately reimburse the firm with the amount of the deficit.

6. All the transactions of the partnership shall be truly entered in Double Entry books of account, and the same are to be audited periodically by a certified public accountant. On the thirty-first day of December of each year the books shall be closed by a certified public accountant, and the net profit or net loss for the year ascertained and apportioned.

7. The said parties hereby mutually agree that during the continuance of

the said partnership neither of them shall indorse any note, or become surety for any person, without the written consent of the said other partner.

8. And it is finally agreed that at the termination of the said partnership the said parties, each to the other, shall and will make a true, just and final account of all things relating to their said business, and in all things truly adjust the same; and all the stock, as well as the gains and increase thereof, which shall appear to be remaining, either in money, goods, wares, debts and otherwise, shall be equitably divided between them.

IN WITNESS WHEREOF, the parties hereto have hereunto interchangeably set their hands, the day and year first above written.

JOHN DOE (L.S.)
RICHARD DOE (L.S.)

(These documents conclude with the signature of a witness, and the attest of a notary public.)

It is a good exercise to analyze an agreement such as the above and to tabulate the analysis so as to determine the constituent elements of the contract. Such an analysis of the foregoing agreement, supplemented by legal knowledge which it is assumed is at the student's disposal, will make clear the following outline:

1. Date on which the partnership commences.

2. The names of the people entering into partnership agreement technically known as the " parties " to the contract.

3. The nature of the business for which the partnership is organized.

4. The address or location of the business.

5. The firm name or style under which the business is to be conducted.

6. The time during which the organization is to continue. Frequently there is included a provision for extension of time without the necessity of entering into another formal agreement. It is also well to include provision as to the notice required from one partner to another in case of a desire to dissolve previous to the period for which originally organized.

7. The amount invested by each partner.

8. The rights and duties of the partners. In general it may be said that each partner, in the absence of specific agreement to the contrary, is to give his full time to the business and to work for the best interests of the business.

9. A statement as to the division of profits and losses should be included because an equal division is assumed unless otherwise agreed upon.

10. Partners are not allowed compensation unless specified in the

agreement. Hence the need of expressly stating the salaries of each partner.

11. As it is desirable to limit the amount of money which individual partners may withdraw from the business, a clause in the agreement limiting such drawings is advisable.

12. The provision for keeping modern books and for having them audited by certified public accountants is becoming more universally recognized as a wise one.

13. The restriction on the individual partner, as stated in Clause 7 of the partnership agreement, is based upon the knowledge that creditors of the individual partners may, under certain conditions, attach the partnership property for the payment of debts of an individual member of the organization.

14. The manner and method of dissolution is frequently included so as to avoid subsequent disputes.

15. Other provisions are frequently included, and the student is advised to consult legal texts for further knowledge of the subject.

Questions

1. Give two reasons favoring partnership organizations.
2. Give two reasons against partnership organizations.
3. What is meant by Articles of Copartnership?
4. Is a written agreement necessary to create a partnership? Explain fully.
5. On the basis of the copartnership contract shown on pages 228, 229, answer the following questions:

   (*a*) When did the partnership commence?
   (*b*) On what date was it to terminate?
   (*c*) How much was the " party of the first part " to invest?
   (*d*) How much was Richard Roe to invest?
   (*e*) State in your own words the duties of the partners.
   (*f*) How were profits and losses to be divided?
   (*g*) What limitation is placed upon their personal drawings?
   (*h*) Are the salaries of the partners to be considered as personal drawings? Explain fully.
   (*i*) How often are the books to be closed?

6. Do you favor a written contract between partners? Give reasons for your answers.
7. In view of the fact that lawyers should be asked to draw up copartnership agreements, justify the study of such contracts by the bookkeeper.

Exercise 43

Inspect any copartnership agreement which you can obtain, and analyze it in the manner shown on pages, 229, 230.

Partnership Bookkeeping

We shall now proceed to the bookkeeping involved in partnerships. In this connection we will consider:

- Opening entries of partnerships.
- Routine entries occurring in partnerships.
- The closing entries for partnerships.
- The bookkeeping entries required at dissolution.
- The bookkeeping entries necessitated by the admission of a new partner.

44. Opening Entries for Partnerships

Case I.—If Mr. Brown commences business by investing cash, $1,000.00, the opening entry is a very simple matter. If Mr. Smith, likewise, invests $1,000.00 in a similar business, the opening entry is equally simple. And if Messrs. Brown and Smith invest $1,000, each, in the *same* business, the entry therefor is no more difficult.

The entry for this partnership investment is as follows:

L.F.	April 1, 19—				
	B. Brown and S. Smith have this day formed a copartnership under the firm name of Brown & Smith for the purpose of conducting a wholesale dry goods business, at 900 Broadway, New York City, according to the terms of a copartnership agreement executed this day. The investment of each is $1,000.00 in cash, and the following entries are for the purpose of opening the books:				
C.B. 1	Cash	1,000	00		
1	B. Brown, Capital			1,000	00
	1				
C.B. 1	Cash	1,000	00		
3	S. Smith, Capital			1,000	00

In cases of this kind, it is sometimes desired to make a combined entry instead of the two separate entries as shown above. The two separate entries, however, are more usually employed. When a compound entry is desired, it is as follows:

L.F.	April 1, 19—				
	(Explanation as before.)				
C.B. 1	Cash	2,000	00		
1	B. Brown, Capital			1,000	00
3	S. Smith, Capital			1,000	00

The above amounts would also have to appear in the Cash Book so as to record in the proper book of original entry that business was commenced with $2,000.00 cash on hand. But as was explained in a previous connection, opening entries, as a general rule, even if they consist of cash only, are also included in the Journal so as to facilitate proper explanation.

The Cash Book entry is as follows:

19—								
Apr.	1	J1	B. Brown, Capital	Investment	1,000	00		
	1	J1	S. Smith, Capital	Investment	1,000	00		

Case II.—When partnerships are formed, the investment of one partner not infrequently consists of an established business. In this case, he invests not only cash, but other assets. Let us assume that Mr. Brown's investment consisted of $3,500.00; $1,000.00 in cash, the balance in various other assets, while Smith's investment consisted of $2,500.00 in cash. The entry is shown at the top of page 233.

Of course, entries for the cash parts of the investment would have to appear in the Cash Book.

Case III.—A somewhat more complicated situation arises when one of the partners invests certain assets, and the business assumes some of his liabilities. In this case, the partnership agrees to settle the individual partner's liabilities at their maturity. Assuming that Mr. Brown's investment of $3,500.00 was decreased by the assumption of his liability of $800.00 in Accounts Payable, the opening entry for the partnership would be as shown in the second entry on page 233.

	April 1, 19—				
	B. Brown and S. Smith have this day formed a copartnership, under the firm name of Brown & Smith, for the purpose of conducting a wholesale dry goods business, at 900 Broadway, New York City, according to the terms of a copartnership agreement executed this day. Mr. Brown invests $3,500.00, of which $1,000.00 is in cash; Mr. Smith invests $2,500.00 in cash:				
C.B. 1	Cash	1,000	00		
8	Merchandise Inventory	800	00		
12	Furniture and Fixtures	350	00		
5	Accounts Receivable [1]	1,350	00		
1	B. Brown, Capital			3,500	00
	1				
C.B. 1	Cash	2,500	00		
3	S. Smith, Capital			2,500	00

	April 1, 19—				
	(Explanation similar to that given previously.)				
C.B. 1	Cash	1,000	00		
8	Merchandise Inventory	800	00		
12	Furniture and Fixtures	350	00		
5	Accounts Receivable	1,350	00		
6	Accounts Payable			800	00
1	B. Brown, Capital			2,700	00

Case IV.—As another illustration of opening entries, let us assume that, though Mr. Brown's contribution to the partnership of Brown & Smith amounted to $2,700.00, he wished to invest only $2,500.00.

[1] A Schedule of Accounts Receivable, showing how much individual concerns owe, would be employed to enable the bookkeeper to open accounts in the Sales Ledger with the debtors.

The excess of \$200.00 (\$2,700.00 less \$2,500.00) would be analogous to a personal deposit of Mr. Brown, subject to withdrawal by him, in the absence of special agreement, at his election. The opening entry would have to take into consideration the fact that this \$200.00 was not a capital investment. This aim would be attained by crediting the \$200.00 to Mr. Brown's "personal" account. This account is also called a "drawing" account or a "private" account. The entry giving effect to this modification is as follows:

	April 1, 19—				
	(Explanation similar to that given previously.)				
C.B. 1	Cash	1,000	00		
8	Merchandise Inventory	800	00		
12	Furniture and Fixtures	350	00		
5	Accounts Receivable	1,350	00		
6	Accounts Payable			800	00
1	B. Brown, Capital			2,500	00
2	B. Brown, Personal			200	00

Case V.—Enough has been presented to enable the conscientious student to understand the opening entries for any ordinary partnership. It is necessary, however, to present a difficulty which arises when one or more of the partners invest a Note Receivable. In such cases, though many partners would be willing to accept the note at its face value, it is well to know that examination boards usually require that the note be taken at its present or market value. Thus, if a note dated March 15, 19—, for \$2,000.00, due in 60 days, were invested by Mr. Brown on April 1, this investment would result in crediting him, not with \$2,000.00, but with \$2,000.00 less the interest on \$2,000.00 from April 1 until the maturity of the note. In the absence of a stated rate of interest, 6%, the legal rate (in New York and in many other states), will be taken as a basis of computation. The interest on \$2,000.00 from April 1 to maturity, is \$14.33 (43 days discount on \$2,000.00 at 6%); therefore the net proceeds or present value is \$1,985.67. Assuming now that Mr. Brown invested this note in addition to the items listed in the entry for Case III, the proper entry would be as follows:

	April 1, 19—				
	(Explanation as before.)				
C.B. 1	Cash	1,000	00		
8	Merchandise Inventory	800	00		
12	Furniture and Fixtures	350	00		
5	Accounts Receivable	1,350	00		
7	Notes Receivable	2,000	00		
6	Accounts Payable			800	00
1	B. Brown, Capital			4,685	67
2	Discount Earned			14	33

The student should observe that while the note was not accepted by the business as worth, on the date of investment, fully $2,000.00, it is nevertheless entered in the business at this figure. This is because of the custom followed by bookkeepers always to enter notes on the books at face value. Observe, however, that Mr. Brown received credit not for the full $2,000.00, but only for the present value of the note on a bank discount basis. The difference between the face value of the note and the amount for which Mr. Brown was given credit, $14.33, is treated variously by bookkeepers and accountants. One interpretation regards this difference as a profit to the business, and it is accordingly credited to an account which is clearly self-explanatory, namely, Discount Earned. It is true, of course, that the $14.33 is not really earned until maturity, but the practice of showing the discount earned when the note is discounted is considered good. More advanced study will reveal certain modifications, but for our present purposes, the indicated procedure is correct.

Case VI.—The following Journal entry is as difficult a one as the student will probably ever be called upon to prepare for himself. Note that the Net Investment of the partner is exactly equal to the difference between the assets contributed by him and the liabilities assumed by the partnership. The student should carefully study the entry so as to become thoroughly familiar with it.

The investment of each partner is shown on page 236.

Comments.—(*a*) Note that the items have been posted, as is indicated by the check figures in the Ledger Folio column.

(*b*) When an amount which is contributed or invested consists of several similar items it is customary to list the items under appropriate headings, called schedules.

	5	Accounts Receivable	As per Schedule B	8,300	00		
	7	Notes Receivable	As per Schedule C–1	2,500	00		
	8	Mdse. Inventory	As per Schedule A	4,200	00		
	12	Furniture and Fixtures	As per Schedule D	700	00		
	9	Notes Payable	As per Schedule F			1,500	00
	6	Accts. Payable	As per Schedule E			3,200	00
	1	B. Brown, Capital	Net Investment			11,000	00
	7	Notes Receivable	As per Schedule C–2	5,000	00		
	10	Horses and Wagons	As per Schedule G	1,000	00		
	CB1	Cash		9,000	00		
	3	S. Smith, Capital	Net Investment			13,000	00
	4	S. Smith, Drawing	Deposit			2,000	00
	CB1	Cash		5,000	00		
	15	R. T. Longley, Capital	Net Investment			5,000	00

(*c*) It is assumed that the Notes Receivable invested by Mr. Brown were accepted by the partnership as at their face value. Accordingly, no discount need be deducted.

(*d*) As a type of Schedules, consider the following:

Schedule B

Accounts Receivable invested by B. Brown

Debtor.	Address.	Date of Sale.	Terms.	Amount.
F. R. Bates	8 E. 23d St., City	Mar. 18	On a/c	$2,875.00
Smith Co.	Troy, N. Y.	Mar. 4	On a/c	4,250.00
N. Y. Trading Co.	11 Water St., City	Feb. 26	On a/c	158.47
Sears, Moxie & Co.	Newark, N. J.	Mar. 21	On a/c	216.53
Orleans & Sons	142 South Street, Boston, Mass.	Mar. 15	On a/c	800.00
				$8,300.00

Schedule C–I

Notes Receivable invested by B. Brown

Date.	Maker.	Payee.	Time.	Face.	Where Payable.
Jan. 8	Smith Co.	B. Brown	4 mos.	$1,000.00	1st Natl. Troy
Jan. 21	Smith Co.	B. Brown	4 mos.	1,000.00	1st Natl. Troy
Mar. 21	Harlem & Co.	B. Brown	60 days	500.00	Com. Exch. (Broad St.)
				$2,500.00	

Schedule A

Merchandise invested by B. Brown, and appraised by Messrs. Smith & Longley

1,260 yd. No. 810 Calico	@ 5c.	$63.00
2,600 yd. No. 1050 Linen	@ 12½c.	325.00
2,908 yd. No. 308 Woolens	@ 1.00	2,908.00
693 yd. No. 408 Woolens	@ 90c.	623.70
Miscellaneous (trimmings, thread, etc)		280.30
		$4,200.00

Case VII.—When the number of personal accounts included in Accounts Receivable is large, then the schedules shown in connection with Case VI are employed. The opening Journal entry is the basis for the accounts in the General Ledger, but the opening balances in the controlled ledgers are obtained from the schedules. The fact that such balances were taken from a schedule instead of from some book of original entry, is clearly indicated, thus:

Horace Walker & Co.

19— Apr.	1	Schedule A		412	80					

When, however, the number of personal accounts are few, the items to be posted to the subsidiary ledgers are incorporated in the opening entry. The illustration of the entry, shown on page 238, together with the subsequent postings, should prove useful to the student.

Comments.—(*a*) The form of Journal employed indicates that provision has been made to keep controlling accounts.

(*b*) Note how the individual customers' accounts have been indented.

(*c*) A similar observation is in order regarding the accounts with individual creditors.

(*d*) The checking for items which appear in the General Ledger columns refers to pages in the General Ledger.

(*e*) The accounts with customers have been posted to the indicated pages in the Sales Ledger.

(*f*) Similarly, the creditors' accounts have been transferred to various pages in the Purchase Ledger.

(2) The Cash Book entry for the cash part of Mr. Brown's investment is shown on page 238.

(1) The Journal entry:

April 1, 19—

Accounts Payable	General	L.F.			L.F.	General	Accounts Receivable.
			(Explanation omitted. See page 233).				
	1,000 00	C.B.2	Cash				
	800 00	6	Mdse. Inventory				
	350 00	7	Furniture and Fixtures				
	1,350 00	4	Accounts Receivable:				
		2	Horace Walker & Co.	$412.80			
		3	S. S. Olney & Sons	76.75			
		4	Brewster & Sons	500.00			
		5	Simpson & Simpson	360.45			
			Accounts Payable:		5	800 00	
			Bunker, Travis & Co.	$150.00	2		
			Hurst & Bros.	410 00	3		
			Young & Lamb	240.00	4		
			B. Brown, Capital		1	2,700 00	

(2) The Cash Book entry:

Cash Receipts

Date.		L.F.			Sales Ledger.	Sales Disct.	Customers Net.	General.
19— Apr.	1	J1	B. Brown, Cap.	Part of his investment				1,000 00

Comments.—(*a*) Note that Mr. Brown's account will not be credited because of the entry shown. His account will be credited from the Journal for the entire net investment.

(*b*) The form of Cash Book differs from those shown previously.

(*c*) The first column is headed " Sales Ledger " instead of Accounts Receivable. To this column is carried the amount of a customer's indebtedness canceled by his cash payment to us.

(*d*) Instead of carrying the net amount received from customers to the General column, a new column has been added, here styled " Customers Net."

(*e*) The sum of the Sales Discount column and the Customers Net column should be exactly equal to the Sales Ledger column.

(*f*) At the end of each month, the total of the third column must be carried into the fourth, so as to show the entire cash debit.

(3) Posting to the General Ledger:

1 — B. Brown, Cap.

	19— Apr. 1 J1 2,700.00

2 — Cash

4 — Accounts Receivable

19— Apr. 1 J1 1,350.00	

5 — Accounts Payable

	19— Apr. 1 J1 800.00

6 — Merchandise Inventory

19— Apr. 1 J1 800.00	

7 — Furniture and Fixtures

19— Apr. 1 J1 350.00	

Comments.—(*a*) These simple forms of "T" accounts, slightly modified, will be readily understood.

(*b*) A Proof Trial Balance could now be taken to prove the correctness of the posting. The Cash balance would be taken from the Cash Book, at this point.

(4) Posting to the Sales Ledger:

2 — Horace Walker & Co.

19— Apr. 1 J1 412.80	

3 — S. S. Olney & Sons

19— Apr. 1 J1 76.75	

4 **Brewster & Sons**

19—	
Apr. 1 J1 500.00	

Simpson & Simpson 5

19—	
Apr. 1 J1 360.45	

(5) Posting to the Purchase Ledger:

2 **Bunker, Travis & Co.**

	19—
	Apr. 1 J1 150.00

Hurst & Bros. 3

	19—
	Apr. 1 J1 410.00

4 **Young and Lamb**

	19—
	Apr. 1 J1 240.00

Questions

1. What is meant by the opening entry for a partnership?

2. Study the opening entry for Brown & Smith, page 233. Is it clear? Is it concise? Is it complete? Explain fully.

3. Why do opening entries for cash investments appear in the Journal as well as in the Cash Book?

4. Prove that the fundamental principle of double entry bookkeeping is observed in the opening entry for Brown & Smith, referred to in Question 2, above.

5. Differentiate between a partner's capital account and his drawing account.

6. To how much credit is a partner entitled who invests a note payable to his order, indorsed by him to the firm, before the maturity of the note?

7. What is the function of a Discount Earned account? Differentiate between this account and a Discount on Notes account.

8. As an original exercise, try to explain the probable significance of a Discount Lost account.

9. What is meant by a Schedule of Notes Receivable?

10. On the basis of the entry shown on page 236, where will the individual accounts with customers appear?

11. How will the accounts get into the Sales Ledger? Explain on the basis of the following account:

N. Y. Trading Co.

11 Water St., City

19— Jan.	1	Schedule B		158	47						

Exercise 44A

Frank Lind and Samuel E. Bain formed a partnership on September 8, 19—, under the firm name of Frank Lind & Co. Frank Lind invested cash $3,650.00; fixtures, $1,200.00; stock of merchandise, $4,850.00; accounts receivable, as per schedule, $14,550.00. S. E. Bain invested cash, $20,000.00. Show the opening entry.

Exercise 44B

Thomas Nelson, Franklin M. Nelson and Sylvester Boyd Nelson organize the grocery firm of Thos. Nelson & Sons, on November 21, 19—. T. Nelson invests $15,000.00 cash, F. M. Nelson, $5.000.00 in cash and S. B. Nelson, $1,000.00 cash and his own note in favor of Thomas Nelson & Sons, due May 21, 19—, for $4,000.00, which the firm agrees to take at its face value. Open the books of the firm.

Exercise 44C

Saul S. Snow is in the furniture business for himself. On December 31, 19—, his Balance Sheet appears as follows:

S. S. Snow—**Balance Sheet—Dec. 31, 19—**

Real Estate	$10,000.00	Accounts Payable	$21,000.00
Plant and Fixtures	24,000.00	Loans Payable	10,000.00
Inventory	20,000.00	S. S. Snow, Capital	72,200.00
Accounts Receivable	41,000.00		
Cash	8,200.00		
	$103,200.00		$103,200.00

On the same date, the balance sheet of one of his friends, in the same line of business, is as follows:

Robert E. Livermore—Balance Sheet—**Dec. 31, 19—**

Cash	$24,500.00	Accounts Payable	$6,700.00
Fixtures	3,600.00	Notes Payable	15,000.00
Inventory	37,810.00	Robt. E. Livermore, Cap.	64,710.00
Accounts Receivable	20,500.00		
	$86,410.00		$86,410.00

Messrs. Snow, Livermore & Jameson decide to form a partnership under the firm name of Snow, Livermore & Co. Mr. Snow and Mr. Livermore are to invest their respective businesses, taken at book value, while Mr. John T. Jameson is to contribute cash, $30,000.00.

Show the opening entries as of January 2, 19—.

Exercise 44D

Show the opening entries for 44*C* above, on the assumption that the copartnership agreement provided that Mr. Snow was to invest net assets amounting to $70,000.00, Mr. Livermore $60,000.00 and Mr. Jameson $30,000.00.

Exercise 44E

The following schedule accompanied Mr. Snow's Balance Sheet (see Exercise 44*C* above):

Schedule A—Accounts Receivable

Dec. 31, 19—

Debtor.	Address.	Date of Sales.	Terms.	Amount.
S. Hart & Co.	Brooklyn	Nov. 10	60 days	$10,000.00
Dimeant & Co.	Montreal	Nov. 26	On a/c	8,000.00
Dimeant & Co.	Montreal	Nov. 30	On a/c	6,500.00
Lang & Lang	Philadelphia	Dec. 2	On a/c	12,000.00
Chas. Sperry	Philadelphia	Nov. 28	On a/c	4,500.00
				$41,000.00

Mr. Livermore presented the following schedule of his customers' accounts:

Schedule One—Accounts Receivable

Debtor.	Address.	Date of Sales.	Terms.	Amount.
F. T. Jones	Albany, N. Y.	Dec. 3	On a/c	$9,200.00
Lang & Lang	Phila., Pa.	Nov. 16	On a/c	7,600.00
C. Cohen & Co.	Detroit	Nov. 24	On a/c	3,700.00
				$20,500.00

1. Show the opening entry based on Exercise 44*C*, and follow the model presented in Case VII, page 238. (Prepare your own schedules of Accounts Payable.)

2. Post the opening entries to the General Ledger, the Sales Ledger and the Purchase Ledger.

3. Take a Trial Balance of the General Ledger.

4. Prepare a Schedule of Accounts Receivable and a Schedule of Accounts Payable.

5. Prepare a Balance Sheet. (This exhibit is sometimes referred to as the "Opening Balance Sheet.")

45. Routine Entries of Partnership

The student has already learned that the opening entries for partnerships do not differ radically from the opening entries of sole proprietors. He is about to learn that the routine or ordinary entries of a copartnership do not essentially differ from similar entries in a corresponding concern owned by an individual. As a matter of fact, sales and purchases, payment of invoices and wages, issuing and redemption of notes, and the hundred-and-one other transactions common to both the partnership and the sole proprietorship, are entered in exactly the same way.

But there are a few transactions which are more or less intimately connected with partnership affairs which it is well for us to discuss in connection with what we have called the Routine Entries for partnerships.

Case I.—If one of the partners, say Mr. Brown, draws some cash for his personal use, the entry is similar to that which would have to be made if Mr. Brown were the sole owner of the business. It is as follows:

B. Brown, Drawing	$———	
Cash		$———

A similar entry is made if the concern pays money for any personal obligation of Mr. Brown. In practice, of course, the entry would appear in the Cash Book, but, as was explained on a previous page, the Journal is a better medium by means of which to illustrate typical entries.

Case II.—It is probable that the partners are allowed a salary according to the Articles of Copartnership. Instead of charging to the Expense account or to the Salary account the amount so received by each partner as salary, it is better to charge it to Partners' Salary account. The entry is as follows:

Partners' Salary	$———	
Cash		$———

Case III.—If instead of taking the money due as salary, a partner decides to permit it to remain in the business, the following entry is in order:

Partners' Salary	$———	
———, Drawing		$———

It should readily be seen that the credit to the Drawing account of any partner constitutes a liability to the business. It is not canceled or reduced until the amount due has been paid.

Case IV.—When the partner to whom salary is due is finally paid, the following entry results:

———, Drawing	$———	
Cash		$———

Case V.—Frequently, one of the partners is in charge of the outside activities of a business, that is, he travels about, either as a salesman, or as a sales manager, or in some other similar capacity. It is almost universally provided that for all expenses incurred by him in connection with such traveling he should be suitably reimbursed. When he hands in his voucher (on which there is usually itemized the expenses incurred), and he is paid therefor, the following entry should be made:

Traveling Expenses	$———	
Cash		$———

Case VI.—If, however, the partner who is entitled to such reimbursement simply hands in his voucher, and elects not to draw the amount to which he is entitled, the student will readily understand

that an entry should be made crediting the partner's drawing account instead of Cash account:

Traveling Expenses	$———	
———, Drawing		$———

From what has been said in Cases V and VI, it must not be inferred that Traveling Expense account occurs only in partnerships. To this account there is charged in organizations, regardless of their form, expenses incurred by traveling salesmen.

Case VII.—When a partner takes merchandise for his personal use, his account is charged and the credit is made to the Sales account, though infrequently the Purchase account is used instead:

———, Drawing	$———	
Sales		$———

Case VIII.—Should one of the partners leave money or a check with the firm and should this amount then be deposited with the firm's money, an entry should be made giving the individual suitable credit. Such an entry follows:

Cash	$———	
———, Drawing		$———

Case IX.—Sometimes one of the members of the firm induces his copartners to have the firm issue to him a promissory note which he wishes to negotiate for his individual benefit. Though this is not a usual transaction, it may occur and the entry therefor is as follows:

———, Drawing	$———	
Notes Payable		$———

Case X.—When the note is finally paid by the individual partner in whose behalf it was issued, an entry is made to reverse the first one:

Notes Payable	$———	
———, Drawing		$———

If, however, the individual partner failed to meet the note at its maturity, and the firm had to redeem it, the following entry would be in order:

Notes Payable	$———	
Cash		$———

It should be clear that the last transaction is equivalent to a drawing of cash by the partner.

When a note is so redeemed by a firm, it is just barely possible that "protest fees" would also be incurred. If we assume that the original note was for $1,000.00 and the "protest fees" are $1.50, when the note was redeemed by the firm the following entry would be made:

Notes Payable	$1,000.00	
———, Drawing	1.50	
Cash		$1,001.50

It should be obvious that the $1.50 is charged to the individual partner's drawing account, because the expense was incurred due to failure on his part to keep his promise.

Case XI.—As a result of a personal transaction between two partners, the cancellation is sometimes effected by transferring the amount involved from one partner's account to the other. Let us assume that Mr. Brown owes Mr. Smith $50.00 and that it is agreed between the partners that the amount in question should be transferred from Mr. Brown's account to Smith's account. The following entry gives effect to this agreement:

B. Brown, Drawing	$50.00	
S. Smith, Drawing		$50.00

Case XII.—In Case IX we discussed a situation which arises when the firm issues a promissory note to accommodate one of the members of the firm. A similar accommodation results when the partnership, as such, indorses the individual promissory note of one of its members. The indorsing of such a note creates what is known in the law as a "contingent liability." Such a contingent liability recognizes the fact that, in case the maker of the note (in this case, the individual partner) fails to meet his obligation at maturity, the indorser becomes liable for the payment of the promissory note. The contingency is the possibility that the person for whom the note is indorsed will fail to meet it at maturity. Until recently no entries were made for such transactions as this, but due to the influence of accountants, who insist that all transactions be shown on the books, an entry is now made to show the contingent liability involved. The entry about to be shown is in its simplest form. Other forms, more complicated, are also employed, and these the student may learn of by consulting advanced books. The entry is as follows:

———, Drawing	$———	
Indorser's Liability		$———

Case XIII.—When the individual partner meets his note at maturity, an entry is made reversing the original entry for the transaction:

Indorser's Liability	$———	
————, Drawing		$———

Case XIV.—If the firm is called upon to meet the note at its maturity, due to the failure of the partner to pay the same, an entry is made canceling the contingent liability which is removed by the meeting of the obligation, and to charge the partner for any fees incurred:

Indorser's Liability	$———	
————, Drawing	$———	
Cash		$———

It should be observed that there is charged to the Drawing account of the individual partner the amount of protest fees or other expenses incident to his failure to redeem his promissory note.

Case XV.—It sometimes happens that a partner who has invested Accounts Receivable or Notes Receivable is called upon to make good any loss due to subsequent failure to collect such accounts or notes. The ordinary entry for a loss due to a bad debt is a charge to Bad Debts account and a credit to the account representative of the item which was found to be uncollectible. If, however, the loss is to be borne by the person who invested the items in question, then the charge, instead of being made to Bad Debts account, should be made to the individual partner's Capital account. The procedure depends altogether on the agreement between the partners as to the responsibility for the ultimate collection of bad accounts and notes contributed by the individual members of the firm.

Undoubtedly there are other transactions which might be included under partnership routine, but enough have been presented to enable the student to handle intelligently the great majority of ordinary transactions which will confront him in every-day practice.

Questions

1. What is meant by "routine entries for partnerships"?
2. Do the ordinary transactions of a partnership differ radically from those of a sole proprietorship, in the same line of business? Explain fully.
3. What entry should be made for salaries paid to partners?
4. What entry should be made when the salary due a partner, for any reason whatsoever, is not taken by him at the time it is due? Give reasons for your answer.

5. How may two partners, one of whom owes money to the other for a personal obligation not involving any business transaction, settle the debt between them without actually transferring cash?

6. Who do you understand by "indorser's liability"? Can this condition arise except in partnerships? Explain.

Exercise 45A

Show entries for the following in the books of A and B, a partnership:

1. A receives a personal check for $165.00, which he instructs the bookkeeper to deposit in the bank to the credit of the firm.

2. While B is on the road, a bill for $18.35 is received from a department store, representing purchases made by Mrs. B during the previous month. A orders the bill paid and the invoice is paid.

3. A purchases an automobile for $1,800.00, for his personal use. The firm check for $100.00 is given as deposit to bind the purchase.

4. Received a statement from B showing that his expenses on the road for the past week amounted to $146.60, divided as follows:

Expenses for week ending Nov. 20, 19–

	B
Railroad	$36.80
Hotels	62.55
Entertainment	41.40
Miscellaneous	5.85
	$146.60

Have sufficient funds. Do not send any more till I write.

5. Advanced to A, who was leaving on a short business trip, $300.00, for his traveling expenses. Upon his return, he was to furnish an itemized statement of his expenses.

Exercise 45B

Show entries in the books of the firm of Sellers & Lane for the following transactions:

(1) The firm borrowed from Mrs. Lane, the mother of the junior partner, $5,000.00, in cash.

(2) Mr. Sellers owes Mr. Lane, $25.00. Mr. Sellers instructs the bookkeeper to draw a firm check to Mr. Lane's order for this amount.

(3) Mr. Lane keeps a personal bank account. He draws his personal check for $75.00 to pay the rent of his apartment.

(4) Mr. Sellers sold his automobile for $725.00 today. The check was received by the firm and deposited in the firm's account.

(5) At Mr. Lane's request, sent a box of merchandise, valued at $10.00, to his aunt, as a birthday gift. Inclosed Mr. Lane's personal card.

46. Closing Entries

Just as in the case of a sole proprietorship, it is necessary periodically, usually once a year, to close the books of partnerships. Essentially, this process, as we have already learned, consists of entering inventories and accruals, transferring all accounts showing losses or gains to the Profit and Loss account, and finally transferring the net profit or net loss to the proprietor's account. The same principle obtains when it is necessary to close the accounts of partnerships.

Case I.—Let us assume that the Profit and Loss account of the firm of Smith & Brown shows a credit balance of $2,000.00. At the same time let us assume that Mr. Brown's account is as follows

B. Brown, Capital

	19— Jan. 1	$4,000.00

and that Mr. Smith's account is as follows:

S. Smith, Capital

	19— Jan. 1	$2,000.00

In order to close the Profit and Loss account, it is necessary to transfer the net profit of $2,000.00 to the accounts of the partners. The following entry is necessary:

Profit and Loss	$2,000.00	
S. Smith, Capital		$1,000.00
B. Brown, Capital		1,000.00

The student may be surprised to find that Smith received as large a share of the net profit as did Brown, despite the fact that Brown had an investment twice as large as Smith's. But the division as shown

is correct, in accordance with the provisions of partnership law, which hold that in the absence of a specific agreement between partners all losses and gains are shared equally between them.

Instead of carrying the net profit to the capital accounts of the partners, it is frequently transferred to the drawing accounts as shown in the following entry:

Profit and Loss	$2,000.00	
S. Smith, Drawing		$1,000.00
B. Brown, Drawing		1,000.00

The student, in the absence of specific instructions, may follow either procedure, but he should recall this statement in connection with Case IV, below.

Case II.—If in Case I profits were to be divided in proportion to the respective investments of the partners, Brown would have been entitled to two-thirds of the $2,000.00 and Smith to only one-third of $2,000.00, and the following entry would be correct:

Profit and Loss	$2,000.00	
B. Brown, Capital		$1,333.33
S. Smith, Capital		666.67

There are other ratios in which partners share losses and gains and in each case the agreement between partners must be complied with strictly.

Case III.—In some partnerships, while it is desired that the members of the firm shall share in profits and losses equally, yet it is nevertheless felt that differences in contributions should be suitably recognized. One way of recognizing such difference is by allowing one partner a greater salary than the other. Another, and this especially in cases where the capital investments are unequal, is to allow interest on investments, say at 6%, before dividing the profits for the period. If in Case I the profits were to be divided equally, after allowing 6% on the investments of the partners, the following entry would result:

Date		
Interest on Partners' Investments	$360.00	
B. Brown, Drawing		$240.00
S. Smith, Drawing		120.00
6% interest on investments for the year.		

The student should note that instead of charging ordinary interest account, a new account is introduced. This procedure is in accordance

with the doctrine of accountants, namely, that whenever possible the titles of accounts should clearly indicate their nature. Moreover, it is desirable that we separate the ordinary commercial interest from this " family " interest, as it may be styled.

Now what shall be done with the loss to the business of $360.00, due to the credits carried to the partners' accounts? As a loss it must be written off to Profit and Loss account before dividing the net profit for the period under review. This is accomplished by the following entry:

Profit and Loss	$360.00	
Interest on Partners' Investments		$360.00
To transfer loss shown by the Interest on Partners' Investments account, to P. and L. account.		

It now becomes necessary to divide the net profit among the partners. This amount is $1,640.00 ($2,000.00 less $360.00). The following entry is now in order:

Profit and Loss	$1,640.00	
B. Brown, Capital		$820.00
S. Smith, Capital		820.00
To close the P. and L. account.		

More difficult cases of division of profit between partnerships occur, of course. For examples of such transactions, the student is referred to " Elements of Accounting," pages 93–102, and to other accounting texts.

Case IV.—The student has already learned that in partnership accounting each partner is likely to have two accounts, one to show his investment and the other his drawings. His drawing account records not only the withdrawal from the business, but also any charges and credits during the year affecting his account. It is customary to " close " the drawing account when the books are closed. This procedure consists simply of transferring the balance shown by the drawing account to the investment or capital account. Thus, if the accounts of Messrs. Brown and Smith appeared as follows:

B. Brown, Capital

	19—
	Jan. 1 J1 $4,000.00

S. Smith, Capital

	19—
	Jan. 1 J1 $2,000.00

B. Brown, Drawing

19—							
Aug. 8	Cash	C.B. 8	$100.00				
Nov. 15	Cash	C.B. 12	75.00				

S. Smith, Drawing

19—							
July 12	Cash	C.B. 4	$550.00				
Aug. 10	Cash	C.B. 8	350.00				
21	Mdse.	S. 14	12.00				
Dec. 1	Cash	C.B. 16	50.00				

after determining that Mr. Brown was entitled to $240.00 interest and Mr. Smith to $120.00, we would make the proper entry, as previously shown, and the drawing accounts would then appear as follows:

B. Brown, Drawing

19—				19—			
Aug. 8	Cash	C.B. 8	$100.00	Dec. 31	Int.	J14	$240.00
Nov. 15	Cash	C.B. 12	75.00				

S. Smith, Drawing

19—				19—			
July 12	Cash	C.B. 4	$550.00	Dec. 31	Int.	J14	$120.00
Aug. 10	Cash	C.B. 8	350.00				
21	Mdse.	S. 14	12.00				
Dec. 1	Cash	C.B. 16	50.00				

The distribution of the net profit ($1,640.00) would now be reflected in the drawing accounts:

B. Brown, Drawing

19—				19—			
Aug. 8	Cash	C.B.8	$100.00	Dec. 31	Int.	J14	$240.00
Nov. 15	Cash	C.B.12	75.00	31	Profit	J14	820.00

S. Smith, Drawing

19—					19—				
July	12	Cash	C.B. 4	$550.00	Dec.	31	Int.	J14	$120.00
Aug.	10	Cash	C.B. 8	350.00		31	Profit	J14	820.00
	21	Mdse.	S. 14	12.00					
Dec.	1	Cash	C.B.16	50.00					

Though it is perfectly proper to leave the drawing accounts as they appear, most bookkeepers would transfer the balance of these accounts to the corresponding capital accounts by means of appropriate Journal entries:

Dec. 31, 19—		
B. Brown, Drawing	$885.00	
B. Brown, Capital		$885.00
To transfer the balance shown by Mr. Brown's Drawing account to his Capital account.		

Dec. 31, 19—		
S. Smith, Capital	$22.00	
S. Smith, Drawing		$22.00
To transfer the balance shown by Mr. Smith's Drawing account to his Capital account.		

The student should note that, whereas in Mr. Brown's case the transferring of the drawing account to the capital account increased Mr. Brown's investment in the business, the similar transfer in Mr. Smith's case reduced the latter's investment. Why is this so? Because in Mr. Smith's case the amount withdrawn by him during the year exceeded the total of the interest allowed him on his investment, plus his share of the net profit.

The final step in closing the accounts of the partners consists of ruling off the accounts. When this step has been accomplished they should appear as follows:

B. Brown, Capital

19—				19—			
Dec. 31	Net Cap.[2]		$4,885.00	Jan. 1		J1	$4,000.00
				Dec. 31	Drawing	J15	885.00
			$4,885.00				$4,885.00
				19—			
				Jan. 1	Net Cap.		$4,885.00

B. Brown, Drawing

19—				19—			
Aug. 8	Cash	C.B. 8	$100.00	Dec. 31	Int.	J14	$240.00
Nov. 15	Cash	C.B.12	75.00	31	Profit	J14	820.00
Dec. 31	Cap.	J15	885.00				
			$1,060.00				$1,060.00

S. Smith, Capital

19—				19—			
Dec. 31	Drawing	J15	$ 22.00	Jan. 1		J1	$2,000.00
31	Net Cap.[2]		1,978.00				
			$2,000.00				$2,000.00
				19—			
				Jan. 2	Net Cap.		$1,978.00

S. Smith, Drawing

19—				19—			
July 12	Cash	C.B. 4	$550.00	Dec. 31	Int.	J14	$120.00
Aug. 10	Cash	C.B. 8	350.00	31	Profit	J14	820.00
21	Mdse.	S. 14	12.00	31	Capital	J15	22.00
Dec. 1	Cash	C.B.16	50.00				
			$962.00				$962.00

[2] Red ink.

Questions

1. What is meant by "closing entries for partnerships"?

2. What very important problem, absent when the books of a sole proprietorship are closed, arises in "closing" partnership books?

3. How should the profits of a partnership be divided? The losses?

4. How often should the books of a partnership be closed?

5. Should profits be transferred to the drawing account or to the capital account? Why?

6. How should the drawing account be closed?

7. Suggest some equitable means of recompensing a partner whose capital investment is much larger than his partner's, but whose share of the profits is only equal to his partner's share.

Exercise 46A

Thomas Canfield, a manufacturer conducting business under his own name, takes his foreman into partnership with him, and changes the firm name to T. Canfield & Co. The foreman does not contribute any capital, but he is to receive 10% of the net profits each year. At the end of the first year the books show a net loss of $1,800.00. How shall this loss be borne? Why?

Exercise 46B

Jones invested $8,000.00 and Riley invested $2,000.00. How should a profit of $3,500.00 be divided between them?

Exercise 46C

How should Messrs. Jones & Riley (Exercise 45*B*) divide a loss of $3,500.00?

Exercise 46D

In Case I, page 249, assume that Messrs. Brown & Smith's books showed a net profit of $4,000.00 on December 31, 19—. Show the entry to adjust this profit if:

(*a*) There was no agreement as to how profits and losses were to be divided.

(*b*) Profits and losses were to be divided according to investments.

Exercise 46E

In Case III, page 250, assume that Messrs. Brown & Smith were allowed interest at 5% instead of at 6%. Show the entries required to close their books. Also show their capital and drawing accounts after closing.

47. Dissolution of Partnership

In case of a sole proprietorship, when the owner decides to give up business, he tries to liquidate or pay off all his liabilities, convert all his assets into cash, and then retires. If his books have been kept correctly, every account will be closed, including the cash account and the proprietor's account. In the case of a partnership, such entries for dissolution are necessitated whenever a situation arises requiring that the partnership be dissolved. Dissolution is necessary when the period for which the partnership was originally organized terminates, or upon the death of an individual partner, or for a number of other reasons, discussed more fully in texts on the law. These law texts also discuss the legal steps which are necessary at such times. We shall consider a number of situations in this connection.

Let us assume that Messrs. Brown and Smith decide to give up business and that their books, immediately after closing, contain the following balances:

December 31, 19—

Assets:		*Liabilities:*	
Cash	$3,000.00	Accts. Payable	$2,387.00
Notes Receivable	5,000.00	Notes Payable	5,000.00
Accts. Receivable	4,200.00	Total Liabilities	$7,387.00
Mdse. Inventory	1,600.00	Capital:	
Expense Inventory	100.00		
Fixtures	350.00	B. Brown	$4,885.00
		S. Smith	1,978.00
	$14,250.00		$14,250.00

Case I.—If S. Smith retires from the business and receives in payment of his interest, $1,978.00 in cash, a simple entry converts the partnership into a sole proprietorship:

S. Smith, Capital	$1,978.00	
Cash		$1,978.00

Had Mr. Smith received $978.00 cash and the balance in a promissory note, signed by Mr. Brown, the following entry would have been made instead of the first one shown above:

S. Smith, Capital	$1,978.00	
Cash		$ 978.00
Notes Payable		1,000.00

Case II.—If Mr. Brown had paid Mr. Smith $2,300.00 cash, instead of only $1,978.00, several entries suggest themselves as solutions:

	S. Smith, Capital	$1,978.00	
	Profit and Loss	322.00	
	Cash		$2,300.00
or,	S. Smith, Capital	$1,978.00	
	B. Brown, Capital	322.00	
	Cash		$2,300.00
or,	S. Smith, Capital	$1,978.00	
	Good Will	322.00	
	Cash		$2,300.00

The first of these three entries is the simplest. It merely gives expression to the fact that if Mr. Brown paid $2,300.00 to cancel an interest of $1,978.00, he suffered a loss of the difference, $322.00. The second entry recognizes the same fact, but instead of charging Profit and Loss account, at once reduces Mr. Brown's account by the same amount. The third entry, which as yet is probably not understood by most readers, is the one which is probably the best. It recognizes the economic doctrine that, as a result of every transaction, equal values are received and given. Therefore, if Mr. Brown saw fit to pay $2,300.00 for Mr. Smith's share in the business, Mr. Smith relinquished something which was worth $2,300.00 to the business. But how can an account which shows a credit of only $1,978.00 be really worth $2,300.00? The question introduces us to the interesting and somewhat difficult problem of "good will."

Good Will

It is, of course, out of the question to enter into a complete discussion of the subject of Good Will. The texts on Law, texts on Accounting and special texts on Good Will will furnish the ambitious student with fuller information on the subject. It is sufficient for our present purpose that we recognize the fact that, when an established business is sold, much more than the physical merchandise and fixtures are transferred by the seller to the buyer. There is also frequently transferred a "trade" or "custom," by which is meant that customers have acquired the habit of dealing in the place because they felt that they were receiving proper treatment there, and will continue to deal with the organization even after the old proprietors have left it. This

probability that trade will continue, despite the change in proprietorship, is worth something, and the price paid for the profits that will probably be realized as a result of such an established trade is the purchase of what is technically known as good will. From one point of view, then, good will may be regarded as the excess of purchase price over replacement value. For example, if $3,000.00 were paid for a business, which could physically be replaced for $2,000.00, $1,000.00 would be paid for that intangible something which, it is believed, will result in profits to the buyer.

Now that we realize the nature of good will, it is also necessary to know how to ascertain it. Frequently, in practice, the price is fixed by haggling rather than by scientific computation. The methods of determining the value of good will scientifically cannot be discussed here, of course. It is sufficient to know that the bookkeeper simply gives effect in his entries to the amount of good will involved in any given transaction.

Case III.—It is just as probable that Mr. Smith, instead of receiving $2,300.00 for his share in the business of Brown & Smith, agreed to relinquish his rights upon receiving less than the amount shown by his capital account. Thus, let us consider what entries are necessary when Mr. Smith retires, upon accepting $1,800.00 in cash, in full for his interest in the business. An entry of the following form suggests itself:

S. Smith, Capital	$1,978.00	
Cash		$1,800.00
"?"		178.00

It is readily seen that Mr. Smith has lost $178.00 which, on the other hand, is a gain to Mr. Brown, who is now sole proprietor of the business. To what account should this $178.00 be credited? Some favor Profit and Loss, on the ground that it represents a profit to the business. Others believe that Mr. Brown's account should at once be credited with the difference, holding that, inasmuch as he is the sole proprietor, his account should show the difference between assets ($12,450.00) and liabilities ($7,387.00) or $5,063.00. We favor the carrying of this profit directly to Mr. Brown's account and therefore the following entry should be made:

S. Smith, Capital	$1,978.00	
Cash		$1,800.00
B. Brown, Capital		178.00
Paid off Mr. Smith by giving him $1,800.00 in cash for his interest in the business.		

A logical minded student might feel that instead of crediting Profit and Loss or Mr. Brown's account, some other account should be credited, similar to the procedure when it was decided to charge Good Will in Case II. Though his reason is logical, practice does not recognize a credit account corresponding to good will, and the entry approved above is the one which is regarded by many accountants as the correct one.

Case IV.—As a final case under dissolution, let us assume that Messrs. Brown and Smith both decide to retire from business as soon as they can wind up their affairs. As they receive payment from their customers the usual entry will be made in the Cash Book, of which, as the student knows, the following Journal entry is a type:

Cash	$———	
Discount on Sales	———	
Customer (Accts. Receivable)		$———

The entry, when Notes Receivable are redeemed, is as follows:

Cash	$———	
Notes Receivable		$———

Let us assume that Accounts Payable and Notes Payable were both paid in full, resulting in the following type entries:

Accounts Payable	$———	
Cash		$———
Notes Payable	$———	
Cash		$———

If the entire merchandise was sold for $1,240.00, the following entry would be necessary:

Cash	$1,240.00	
Profit and Loss	360.00	
Merchandise Inventory		$1,600.00

And, if it is finally assumed that fixtures were disposed of for $200.00, the following entry therefor should be made:

Cash	$200.00	
Profit and Loss	$150.00	
Fixtures		$350.00

If the expense inventory is regarded as worthless, because the items

constituting it cannot be disposed of for cash, another entry is necessary to write it off, so as to show the loss resulting therefrom:

Profit and Loss	$100.00	
Expense Inventory		$100.00

At this point let us assume the following Trial Balance, based upon the assumption that the Notes Receivable were redeemed in full and that all the customers paid up in full, less discounts amounting to $150.00:

Trial Balance (Date)

Cash	$6,103.00	
Profit and Loss	610.00	
Discount on Sales	150.00	
B. Brown, Capital		$4,885.00
S. Smith, Capital		1,978.00
	$6,863.00	$6,863.00

Inasmuch as all assets have been converted into cash and all liabilities have been paid, we are about ready to distribute the cash on hand, so as to cancel Mr. Smith's and Mr. Brown's respective interests in the concern. Before doing so, it is necessary to transfer the Discount on Sales to Profit and Loss account and to divide the net loss, shown by the Profit and Loss account, equally between the partners. The following entry is for the purpose of transferring the Discount on Sales account to the Profit and Loss account:

Profit and Loss	$150.00	
Discount on Sales		$150.00

The Profit and Loss account is closed by means of the following entry:

B. Brown, Capital	$380.00	
S. Smith, Capital	380.00	
Profit and Loss		$760.00

A Balance Sheet of the books of Brown and Smith would now appear as follows:

Assets:		*Capital:*	
Cash	$6,103.00	B. Brown	$4,505.00
		S. Smith	1,598.00
	$6,103.00		$6,103.00

When the cash which is on hand is distributed to Messrs. Brown & Smith, all of the accounts which still remain on the books will disappear, as is evident from the following entry:

B. Brown, Capital	$4,505.00	
S. Smith, Capital	1,598.00	
Cash		$6,103.00

The books are now absolutely closed and no balance exists.

Questions

1. When a sole proprietorship is discontinued, the final entry, which records the fact that the owner has taken the balance of cash, closes all the accounts. What effect has a similar dissolution on the books of a partnership?
2. Under what conditions is a partnership terminated?
3. If a partner wishes to retire from business, how can you ascertain to how much he is entitled?
4. What adjustment is necessary on the books of the firm, when a retiring partner is paid more than the balance shown by his account?
5. What adjustment when such a partner is paid less than the balance of his account?
6. Define good will.

Exercise 47A

Show the Journal entry in the books of Brown & Smith (see Balance Sheet page 256), if Mr. Brown retired, receiving for his interest in the business, cash $1,000.00 and the firm note for $3,885.00.

Exercise 47B

Show the Journal entry if Mr. Brown had received $1,000.00 in cash; one of the notes which the firm owned and included in its Notes Receivable, $2,500.00, indorsed by the firm to the order of B. Brown, and accepted by him at its face value; balance, $1,385.00, the firm's own note, favor of B. Brown, due in six months.

Exercise 47C

Show the Balance Sheet of Brown & Smith (firm name retained) after giving effect to the transactions of Exercise 47*B*.

Exercise 47D

Show the Journal entry if Mr. Brown had received $1,000.00 in cash and a $4,500.00 note from the firm, drawn to his order, in full settlement of his account.

Exercise 47E

Show the entry if Mr. Brown had accepted in full settlement of his account, cash, $1,000.00, and the firm's note in his favor for $3,000.00.

Exercise 47F

The following exhibit shows the condition of a firm engaged in the wholesale drug business:

Robert M. Kingsley & Co.

Balance Sheet as of December 31, 19—

Assets:		*Liabilities:*	
Cash	$18,500.00	Accounts Payable	$14,635.00
Accounts Receivable	40,310.00	Notes Payable	25,000.00
Notes Receivable	2,000.00	Loans Payable	10,000.00
Loans Receivable	500.00	Total Liabilities	49,635.00
Inventory	29,560.00		
Fixtures	3,825.00	*Capital:*	
Delivery Equipment [3]	7,240.00	Robert M. Kingsley	30,000.00
		Samuel H. Sanger	12,300.00
		Woodrow R. Taft	10,000.00
	$101,935.00		$101,935.00

If, at this time, Mr. Kingsley decided to retire from business, and accepted in full settlement of his account, $5,000.00 in cash, and five notes of $5,000.00 each, due in 4, 6, 8, 10 and 12 months, respectively, show the necessary entry.

Exercise 47G

State what changes would occur in the Balance Sheet, shown above, after Mr. Kingsley had retired.

Exercise 47H

Show the entry to pay off Mr. Kingsley, if he received the same amount of cash but the five notes were for $6,000.00 each.

Exercise 47I

Now show the entry if the five notes were for $4,000.00 each.

[3] Automobiles, extra tires, other supplies for machines, oil, etc.

48. Admission of a New Partner

We wish to conclude our discussion of bookkeeping for partnerships by presenting the entries necessary when a partner is admitted. Legally, the admission of a partner means the creating of a new organization; hence the same need of a carefully drawn agreement. From the accountant's point of view it is simply required that the investment of a new partner, together with his resulting interest in the organization, be shown.

Case I.—Let us assume that Mr. B. Brown is in business for himself and that his net capital is reflected by the following Balance Sheet:

Balance Sheet of B. Brown as of Dec. 31, 19—

Assets:		*Liabilities:*	
Cash	$3,000.00	Accounts Payable	$2,387.00
Notes Receivable	5,000.00	Notes Payable	5,000.00
Accounts Receivable	4,200.00	Total Liabilities	$7,387.00
Mdse. Inventory	1,600.00		
Expense Inventory	100.00	*Capital:*	
Fixtures	350.00	B. Brown	6,863.00
	$14,250.00		$14,250.00

He decides to admit F. Frank at this time as a partner, upon the latter's investment in the business of $5,000.00 cash.

Of course, it is necessary to draw up a proper form of partnership agreement. Sometimes, also, it is desired that the books of the old concern be discontinued and a new set of books opened, but such a step is not at all necessary. It is sufficient that the following entry be made:

Date

I have this day admitted F. Frank into partnership with me under the firm name of Brown & Co., as per Articles of Agreement executed this day. Mr. Frank's investment consisted of $5,000.00 cash:

Cash	$5,000.00	
F. Frank, Capital		$5,000.00

As the student already knows, in the absence of a specific agreement to the contrary, Mr. Frank would share in one-half the losses and gains,

despite the fact that his investment is considerably less than Mr. Brown's. Some bookkeepers would then refer to Mr. Frank as an "equal partner" because of the fact that he would have the same interest in the losses and gains as Mr. Brown.

Many consider it better to restrict the term "equal partner" to cases involving equality of capital investments and equality in division of profits and losses. Though this point is by no means fixed, we shall restrict the term "equal partner" to copartners whose original capital investments and whose sharing in profits and losses are alike. The Balance Sheet, at this point, would be as follows:

Balance Sheet of Brown & Co. as of Dec. 31, 19—

Assets:		*Liabilities:*	
Cash	$8,000.00	Accounts Payable	$2,387.00
Notes Receivable	5,000.00	Notes Payable	5,000.00
Accounts Receivable	4,200.00	Total Liabilities	7,387.00
Mdse. Inventory	1,600.00		
Expense	100.00	*Capital:*	
Fixtures	350.00	B. Brown	6,863.00
		F. Frank	5,000.00
	$19,250.00		$19,250.00

Case II.—Had Mr. Brown admitted Mr. Frank into an equal partnership with him, upon Mr. Frank's payment to Mr. Brown *personally* of $5,000.00, then the resulting entry would be as follows:

Date

I have this day admitted F. Frank into equal partnership with me, under the firm name of Brown & Company, as per agreement executed this day. The following entry is for the purpose of transferring to him one-half my interest in the business:

B. Brown, Capital	$3,431.50	
F. Frank, Capital		$3,431.50

The student will note that no entry is made in the books for the cash payment to Mr. Brown. This is so for the obvious reason that the cash was not received by the business, but by Mr. Brown, personally. No matter what amount was thus paid by Mr. Frank to Mr. Brown, the entry shown above would still be made, because, so far as the

business is concerned, the contract was for Mr. Brown to divide his interest in the business into two equal parts, one to be retained by him, the other to be transferred to the partner, Mr. Frank. The Balance Sheet, at this point, would be as follows:

Balance Sheet of Brown & Co. as of Dec. 31, 19—

Assets:		*Liabilities:*	
Cash	$3,000.00	Accounts Payable	$2,387.00
Notes Receivable	5,000.00	Notes Payable	5,000.00
Accounts Receivable	4,200.00	Total Liabilities	7,387.00
Mdse. Inventory	1,600.00		
Expense	100.00	*Capital:*	
Fixtures	350.00	B. Brown	3,431.50
		F. Frank	3,431.50
	$14,250.00		$14,250.00

Case III.—As a third case, let us consider the entry necessary if Mr. Frank is admitted as an equal partner by paying into the business enough cash to give him a one-half interest in the resulting net capital. As Mr. Brown's investment is $6,863.00, Mr. Frank would also invest $6,863.00, and then his account would be credited with one-half the total capital or one half of $13,726.00. The entry would be as follows:

Date

I have this day admitted Mr. F. Frank into equal partnership with me, under the firm name of Brown & Co., as per agreement executed this day. Mr. Frank's investment consisted of cash $6,863.00:

Cash	$6,863.00	
F. Frank, Capital		$6,863.00

The student should easily be able to prepare for himself the Balance Sheet as it would appear at this time.

Case IV.—We have already agreed to restrict the term "equal partner" to the condition which obtains when partners have similar investments and share equally in profits and losses. Let us suppose, now, that Mr. Brown admitted Mr. Frank into equal partnership with him upon the latter's investment in the business of, not $6,863.00, but

only $6,000.00. In other words, Mr. Brown is willing to give Mr. Frank one half of $6,863.00 (the old capital) plus one half of $6,000.00 (the newly contributed capital) or one half of $12,863.00. Why should he be willing to give Mr. Frank a capital interest of $6,431.50 for $6,000.00. Several answers suggest themselves. Possibly $6,000.00 in cash is worth over $6,400.00 of notes, accounts and merchandise; or, it is wise to give this bonus to Mr. Frank because his services to the organization may prove profitable. At any rate, the following entry results:

Date

I have this day admitted Mr. F. Frank into equal partnership with me, under the firm name of Brown & Co., as per Articles of Agreement executed this day. Mr. Frank's investment consisted of $6,000.00 in cash.

Cash	$6,000.00	
B. Brown, Capital	431.50	
F. Frank, Capital		$6,431.50

The student should note that, by charging Mr. Brown's account with $431.50, we reduce his capital balance to $6,431.50, the amount credited to the account of the new partner, Mr. Frank.

Case V.—As a final exercise in this series, let us assume that Mr. Frank contributed $7,000.00 in cash to the business for an equal partnership in it. In this case, two solutions suggest themselves. One of these considers that the excess of $137.00 is to be divided equally between the two partners so as to result in equal capital investments. This is in accordance with the principle which was followed in Case IV, above. The other solution regards the $7,000.00 paid for a one-half interest in the business, as truly representative of a one-half interest, and thereby implies that the business of Mr. B. Brown, though shown as worth only $6,863.00, is really worth $7,000.00. We will show both solutions:

Solution (*a*):

Date

I have this day admitted Mr. F. Frank into equal partnership with me, under the firm name of Brown & Co., as per Articles of Agreement executed this day. Mr. Frank's investment consisted of $7,000.00 in cash:

Cash	$7,000.00	
F. Frank, Capital		$6,931.50
B. Brown, Capital		68.50

The student will readily observe that by crediting Mr. Brown's account with $68.50, his credit balance is increased to $6,931.50, exactly equal to the credit shown in the new partner's account.

Solution (*b*):

Date

I have this day admitted Mr. F. Frank into equal partnership with me, under the firm name of Brown & Co., as per Articles of Agreement executed this day. Mr. Frank's investment consisted of $7,000.00 in cash. Good will amounting to $137.00 has been allowed me upon appraisal of the business:

Good will	$137.00	
B. Brown, Capital		$137.00
Cash	$7,000.00	
F. Frank, Capital		$7,000.00

It is easily seen that Mr. Brown's net capital is now exactly equal to Mr. Frank's net capital. It is the opinion of the author that solution (*b*) is more popular, though the first solution is undoubtedly also correct. There is this to be said, however, in favor of the second solution, namely, that Mr. Frank would probably favor having his account credited with $7,000.00, while Mr. Brown's is increased to $7,000.00, rather than to have his own account reduced by $68.50.

The Balance Sheet, at this point, assuming that solution (*b*) instead of solution (*a*) were employed, would be as follows:

Balance Sheet of Brown & Co. as of December 31, 19—

Assets:		*Liabilities:*	
Cash	$10,000.00	Accounts Payable	$2,387.00
Notes Receivable	5,000.00	Notes Payable	5,000.00
Accounts Receivable	4,200.00	Total Liabilities	7,387.00
Mdse. Inventory	1,600.00		
Expense	100.00		
Fixtures	350.00	*Capital:*	
Good Will	137.00	B. Brown	7,000.00
		F. Frank	7,000.00
	$21,387.00		$21,387.00

It is not intended that the student should believe that every possible situation which arises in connection with the admission of a part-

ner has been discussed. But it is confidently believed that enough has been presented to enable the conscientious student to solve the average problems which will confront him in ordinary practice. More advanced situations are discussed in general and special accounting texts.

Questions

1. Why is the entry for the admission of a partner similar to the opening entry for partnerships?
2. If a partner is admitted, what entry should be made in the books for his investment?
3. What adjustment is necessary when the incoming partner receives a greater interest than that represented by the amount of his investment?
4. What adjustment if he receives a smaller interest?
5. Define equal partner.
6. A firm consists of A and B, equal partners, each of whom has a $10,000.00 interest in the firm. They admit their bookkeeper into partnership with them, upon his contributing $1,000.00 to the capital of the business. No agreement is made regarding the sharing of profits and losses. At the end of the first year, a profit of $6,000.00 has been earned. How much of this profit belongs to the new partner? Why?

Exercise 48A

The Balance Sheet of Sylvester R. Morley, who is in business for himself, is as follows:

Balance Sheet as of December 31, 19—

Assets:		*Liabilities:*	
Cash	$5,080.00	Accounts Payable	$5,640.00
Accounts Receivable	14,740.00	Notes Payable	10,000.00
Notes Receivable	700.00	Total Liabilities	15,640.00
Merchandise Inventory	4,200.00		
Automobile	2,500.00	*Capital:*	
Furniture and Fixtures	420.00	S. R. Morley, Cap.	12,000.00
	$27,640.00		$27,640.00

At this time, Mr. Morley admits his salesman, Mr. Leon H. Arnold, into partnership with him. Mr. Arnold invests $2,500.00 in cash, which amount is to be added to the assets of the organization, the name of which has been

changed to Morley and Arnold. Messrs. Morley and Arnold are to share profits and losses, 80% to Mr. Morley and 20% to Mr. Arnold.

Show the Journal entry resulting from Mr. Arnold's investment.

Exercise 48B

Show the Journal entry for Exercise 48*A*, above, on the assumption that the $2,500.00 which Mr. Arnold invested was to be taken by Mr. Morley personally, and kept by him, and in return for which he was to transfer 25% of his own capital account to Mr. Arnold.

Exercise 48C

Show the Journal entry which would result from the situation described in Exercise 48*A*, above, if, for Mr. Arnold's investment of $2,500.00, which sum was to be added to the assets of the firm, Mr. Arnold's account was to be credited with $3,000.00.

Exercise 48D

Show the entry which would result from the situation described in Exercise 48*A*, above, if Mr. Arnold were to invest $12,000.00 in the business, which sum was to be added to the assets of the firm, and in return for which he was to receive a one-half interest in the capital and profits.

Exercise 48E

Show the entry which would result from the situation described in Exercise 48*A*, above, if Mr. Arnold were to invest $10,000.00 in the business, in return for which he was to receive a one-half interest in the total capital then resulting ($22,000.00) and a one-half interest in the profits.

Exercise 48F

Show the entry which would result from the situation described in Exercise 48*A*, above, if Mr. Arnold were to invest $10,000.00 in the business, in return for which he was to be credited with an amount equal to Mr. Morley's present capital and to share in one half of the profits and losses.

Exercise 48G

Show the entry which would result from the situation described in Exercise 48*A*, above, if Mr. Arnold were to invest $15,000.00 in the business, in return for which he was to receive one-half of the combined net capital then resulting ($27,000.00) and was to share in one-half of the profits and losses.

49. SUMMARY

Bookkeeping Unity.—The student learned that partnership bookkeeping did not differ radically from the bookkeeping for sole proprietorships. The old familiar entries for sales and purchases, issuing and redeeming of notes, paying salaries and other expenses, still obtained. The new features introduced consisted essentially of: (*a*) the articles of copartnership; (*b*) opening entries; (*c*) a few so-called routine entries; (*d*) closing entries; (*e*) dissolutions; and (*f*) admission of partners.

Articles of Copartnership.—Although formal agreements are not essential to the creation of partnerships, experience suggests the advisability of not entering into partnership relations until a carefully prepared contract has been signed. Most quarrels are due to misunderstandings; partnership disputes are minimized by arriving at a clear understanding regarding the rights and duties of the members of the firm before entering into partnership relations. It is highly desirable that the bookkeeper familiarize himself with the essential elements of partnership law and copartnership agreements, not for the purpose of drawing up such contracts, but so that he may be able to foresee difficulties before they occur, and, by pointing out such weaknesses, have them remedied while time still remains. The agreement, presented on pages 228–229, is solely for the purpose of illustrating a type form. Practically each case differs from every other case; the services of an experienced lawyer are therefore necessary in every case where a partnership is contemplated.

Opening Entries.—The opening entries were found to be very much similar to the opening entries for sole proprietors. A personal or drawing account was introduced for the purpose of showing the withdrawals of the partners, and for a few other transactions. Investments of notes were specifically discussed, and the difference between practical and examination usage pointed out.

Routine Entries.—This division served to familiarize the student with certain entries peculiar to partnership bookkeeping, and with some not restricted to partnerships. Among the more important ones discussed were: (*a*) firm salaries; (*b*) traveling expenses; (*c*) accommodation notes; and (*d*) guaranteeing of investments.

Closing Entries.—Under this caption a number of important topics were grouped. These included the division of profits, whether in pursuance of specific agreement or in terms of the general law applicable to partnerships, the closing of the drawing account, and the

problem involved in equitably dividing profits when investments are different.

Dissolution.—Dissolution of a partnership occurs by agreement, or by legal cause. We found that the bookkeeping for dissolutions was similar to the winding up of affairs of a sole proprietorship. What is necessary is to convert assets into cash, pay off liabilities, and distribute the balance of cash. Interesting problems arise when a retiring partner receives more or less than the amount shown by his account in full settlement of his interest in the partnership. In connection with giving a partner more than the book value of his interest in the firm, we were introduced to the important topic of good will. Good will was found to be the excess of purchase price over replacement value, a definition which will be amplified and qualified by more advanced study.

Admission of a Partner.—The admission of a partner is legally equivalent to the organization of a new partnership. Thus it is that the opening entry was found to present no real bookkeeping difficulty. The bookkeeper's function is to interpret, in terms of accounts, the agreement incident to the admission of a new partner. But the problem is not as simple as the statement might suggest, due to the ambiguity of language. For example, he must know what is meant by an "equal partner." Though there exists no absolute unity of opinion, we have restricted the term to imply equality in investment as well as in sharing of profits and losses. The problems which were presented included the admission of a partner who secured an interest in the business equal to, less, and more, than the amount equivalent to his investment. Still another case involved the securing of a partnership interest by paying for it to the existing partner or owner personally, instead of contributing to the funds of the business.

Conclusion.—We are now in a position to realize that the fundamental principles of bookkeeping which we mastered in the first division of this text are of sufficient universality as to apply alike to sole proprietorships and to partnerships. In the next division, we shall see that these same principles are also applicable to corporation bookkeeping.

Questions

1. Explain how it is that partnership bookkeeping does not differ essentially from the bookkeeping of a sole proprietorship.
2. Why is it advisable to have a written agreement governing the relationship between partners?

3. Why should the explanations which accompany original entries be absolutely clear and complete?
4. Assuming that the opening entry for a partnership lacked completeness, state how you would proceed to ascertain the interest of the partners in the net profits of the business.
5. Why should an entry be made to record the liability of the firm as indorsers of a note?
6. Mention several transactions which you believe to be peculiar to partnerships.
7. Illustrate the ambiguity which may result from lack of absolute clearness in the statement of conditions under which a partner is admitted into the business.
8. A certain partnership agreement provides that Mr. B, one of the partners, is to receive $33\frac{1}{3}\%$ of the net profits. The results for the year show a net loss of $600.00. How is Mr. B. affected by this loss? Explain fully.
9. Why is interest frequently allowed to partners on their investments?
10. What is meant by good will?

Exercise 49A

Messrs. Brody, Roberts and Mason form a partnership. Mr. Brody's investment is shown by the following Balance Sheet:

Robert Y. Brody—Balance Sheet—November 1, 19—

Cash	$4,000.00	Accounts Payable	$1,825.00
Merchandise Inventory	3,200.00	Robert Y. Brody, Cap.	15,000.00
Accounts Receivable	8,050.00		
Furniture and Fixtures	1,575.00		
	$16,825.00		$16,825.00

Mr. Roberts' investment is shown by the following Balance Sheet:

John M. Roberts—Balance Sheet—November 1, 19—

Cash	$5,300.00	Accounts Payable	$2,795.00
Merchandise Inventory	6,200.00	Loans Payable	5,000.00
Accounts Receivable	6,750.00	John M. Roberts, Cap.	18,000.00
Furniture and Fixtures	2,545.00		
Real Estate	5,000.00		
	$25,795.00		$25,795.00

Mr. Gabriel Q. Mason invests $10,000.00 in cash.

(1) Show the entries on the books of the new firm resulting from the foregoing investments.

(2) Show the resulting Balance Sheet.

Exercise 49B

Let us assume that the Balance Sheet of Messrs. Jenkins & Hall as of Nov. 30, 19—, is as follows:

November 30, 19—

Assets:		*Liabilities:*	
Cash	$3,500.00	Accounts Payable	$3,435.00
Notes Receivable	6,840.00	Notes Payable	4,000.00
Accounts Receivable	3,800.00	Total Liabilities	$7,435.00
Merchandise Inventory	2,670.00		
Expense Inventory	150.00	*Capital:*	
Furniture and Fixtures	475.00	J. Jenkins	5,600.00
		H. Hall	4,400.00
	$17,435.00		$17,435.00

Show the Journal entry in the books of Jenkins & Hall, if Mr. Hall retired, receiving for his interest in the business, cash $1,000.00 and the firm note for $3,400.00.

Exercise 49C

Show the Journal entry in the books of Jenkins & Hall, if Mr. Hall retired, receiving for his interest in the business, cash $5,000.00. (See Exercise 49*B*, above.)

Exercise 49D

Show the Journal entry in the books of Jenkins & Hall, if Mr. Hall retired, receiving for his interest in the business, cash $4,000.00. (See Exercise 49*B*, above.)

Exercise 49E

Show the entries necessary to close the books and pay off the partners if Messrs. Jenkins & Hall (Exercise 49*B*) decided to give up business. The assets were converted into cash, with the following losses: $150.00 on Notes Receivable and $200.00 on Accounts Receivable. The liabilities were paid in full. The balance on hand was equitably (*not* equally) distributed between the members of the firm.

Exercise 49F

The Balance Sheet of James Stanton, who is in business for himself, is as follows:

Balance Sheet—September, 19—

Assets:		*Liabilities:*	
Cash	$7,600.00	Accounts Payable	$9,345.00
Accounts Receivable	12,570.00	Notes Payable	6,000.00
Notes Receivable	8,900.00	Total Liabilities	$15,345.00
Merchandise Inventory	5,400.00		
Furniture and Fixtures	875.00	*Capital:*	
		James Stanton, Cap.	20,000.00
	$35,345.00		$35,345.00

At this time, Mr. Stanton admits his salesman, Mr. George Fahey, into partnership with him. Mr. Fahey invests $5,000.00 in cash, which amount is to be added to the assets of the organization, the name of which has been changed to Stanton & Fahey. Messrs. Stanton & Fahey are to share profits and losses in the following proportions: 80% to Mr. Stanton and 20% to Mr. Fahey.

Show the entry resulting from Mr. Fahey's investment.

Exercise 49G

Show the entry for Exercise 49*F*, above, on the assumption that the $5,000.00 which Mr. Fahey invested, was to be taken by Mr. Stanton personally, and kept by him, and in return for which he was to transfer 25% of his own capital account to Mr. Fahey.

Exercise 49H

Show the entry which would result from the situation described in Exercise 49*F*, above, if, for Mr. Fahey's investment of $5,000.00, which sum was to be added to the assets of the firm, Mr. Fahey's account was to be credited with $7.000.00.

Exercise 49I

Show the entry which would result from the situation described in Exercise 49*F*, above, if Mr. Fahey were to invest $20,000.00 in the business, which sum was to be added to the assets of the firm, and in return for which he was to receive a one-half interest in the capital and profits.

Exercise 49J

Show the entry which would result from the situation described in Exercise 49*F*, above, if Mr. Fahey were to invest $15,000.00 in the business, in return for which he was to receive a one-half interest in the total capital then resulting ($35,000.00) and a one-half interest in the profits.

Exercise 49K

Show the entry which would result from the situation described in Exercise 49*F*, above, if Mr. Fahey were to invest $25,000.00 in the business, in return for which he was to receive one half of the combined net capital then resulting ($45,000.00) and was to share in one half of the profits and losses.

PART V

CORPORATION BOOKKEEPING AND ACCOUNTING

We are about to learn how to keep the books of corporations. In doing so, we shall come across many features not hitherto presented, but we shall find that the principles of double entry bookkeeping are of universal application.

We learned in connection with partnerships that the existence of such organizations could be traced to an economic basis. It is equally true that economic forces brought corporations into existence, and that economic motives account for their continuance. The advantages, as well as disadvantages, of corporate forms of organizations should be learned by students of bookkeeping from a course in Commercial Law. Here, it will be sufficient to recapitulate the more important points usually discussed when treating of corporation law.

The principal advantages associated with the existence of corporations are usually grouped under three headings, namely:

1. Limitation of Liability.—By this is meant that a person who is a shareholder or a stockholder in a corporation (the term applies to the part owner of such an organization) is not liable for the debts of the corporation. In general, an investor's loss is limited to the amount which he has contributed to the corporation. This is not universally true, but the exceptions will not be treated of in this book.

2. Transferability.—If a member of a partnership wishes to retire, his action causes dissolution of the firm. In a corporation, on the other hand, the transfer of a stockholder's interest does not affect the organization as such. This statement, too, has its limitations, but they will not be gone into now.

3. Duration.—The life of a partnership depends, in the absence of a specific agreement, upon the life of the individual members thereof. In general, however, the life of a corporation is independent of the life of the individual stockholders, for it goes on regardless of the death of an individual member of the organization.

The disadvantages are not as easily stated in such summary form as are the advantages of corporations. For our purposes, however, we may group them under the following sections:

1. Reports.—It is generally true that partnerships and sole proprietorships are not required to furnish reports to public bodies. Corporations, however, are required to submit statements from time to time, which enable government officials to ascertain some of the inner workings of the organization. There are those among corporation officials who

regard such publicity as undesirable interference, but there are two sides to this question, and the student is referred to texts on economics for a fuller discussion.

2. Taxation.—Corporations are, in general, subject to severer taxation than other organizations. This statement is somewhat sweeping and will be modified by more advanced study.

3. Capitalization.—Capital changes, which are entirely within the jurisdiction of the members of the firm, are subject to some governmental interference in the case of corporations.

The advantages and disadvantages which have been briefly outlined in the preceding paragraphs have simply tended to scratch the surface of a very broad and interesting subject. The student is advised, at his earliest opportunity, to familiarize himself with the broader aspect of the subject involved.

We are now ready to proceed to the bookkeeping for corporations and to other important matters connected therewith. The discussion will be treated of under the following headings:

Organization of a Corporation.
Opening Entries for Corporations.
Miscellaneous Corporation Topics.
Dissolution of Corporations.

50. Organization of a Corporation

A partnership, as the student knows, is ordinarily created by two or more people who enter into an agreement usually crystallized into what is known as Articles of Copartnership. Ordinarily, no permission to organize a partnership is required, but in the case of a corporation, various legal steps have to be complied with prior to securing legal authority to begin operations as a corporation.

The steps, in so far as they apply to New York State, are briefly these:

1. Preparation of three copies of a certificate of incorporation, each of which should be signed and acknowledged by the incorporators.

2. Two of these copies must be sent to the Secretary of State with the request that one of them be filed and that the other be verified and returned to the incorporators.

3. Simultaneously with the sending of the certificates to the Secretary of State, the organization tax should be sent to the State Treasurer. This tax is $\frac{1}{20}$ of 1% of the amount of authorized capitalization, i.e., 50c. per thousand dollars, with a minimum tax of $5.00. The State

Treasurer issues two receipts for the organization tax, one of which he sends to the Secretary of State, and the other to the incorporators.

4. When the certified copy of the certificate of incorporation is returned to the incorporators by the Secretary of State, it, together with the duplicate receipt from the State Treasurer, should be filed with the County Clerk of the County in which the office of the corporation is located. The County Clerk's fee for filing the certificate is six cents per folio, and in addition thereto he charges a recording fee of ten cents per folio.

Though it is not desired to enable the student to incorporate a company, nevertheless it is both interesting and profitable to familiarize oneself with the detailed procedure involved in the organization of a corporation. Accordingly we shall present in a very simple form the details involved.

First of all let it be assumed that a number of men decide to organize a trading company. Consultation with their lawyer will develop the nature of the work which it is planned to perform and the amount which is to be invested, together with the other necessary matters.

The Certificate of Incorporation is thereupon drawn up in triplicate, and disposed of as outlined above. A copy of the Certificate of Incorporation follows:

CERTIFICATE OF INCORPORATION OF THE L. L. GLENN COMPANY, INC.

We, the undersigned, all being persons of full age and at least two-thirds being citizens of the United States and at least one of us a resident of the State of New York, desiring to form a stock corporation pursuant to the provisions of the Business Corporation Law of the State of New York, do hereby make, sign, acknowledge and file this Certificate for that purpose, as follows:

FIRST: The name of the proposed Corporation is **The L. L. Glenn Company, Inc.**

SECOND: The purposes for which said corporation is to be formed, are as follows:

1. To engage in the general business of buying and selling dry goods, grain, feed and other merchandise and wares in general.

2. To buy, hold, own, manufacture, produce, sell and otherwise dispose of, either as principal or agent, all kinds of personal property connected with various kinds of merchandising and trading.

3. To purchase or otherwise acquire, sell, exchange, own, hold, utilize, deal in and deal with, all processes, materials, articles, products or other personal property of every kind or description, used or useful in connection with any or all of the purposes and objects hereinbefore expressed.

4. To purchase or otherwise acquire all or any part of the business, name, good will, rights, assets and property of all kinds and assume all or any part of the liabilities of any corporation, association, partnership or individual engaged in any business included in the foregoing purposes and objects.

5. To apply for, purchase or otherwise acquire, and to hold, own, use, operate, and to sell, assign or otherwise dispose of, or grant licenses in respect to, or otherwise turn to account, trade-marks, trade names, letters patent, patent rights, copyrights, brands, labels, inventions, improvements and all other similar rights under the laws of the United States or other countries, covering, connected with or relating to any or all of the articles, products or things that may at any time be dealt in by this Corporation.

6. To purchase, lease or otherwise acquire, hold, use, sell, exchange, convey or mortgage such real estate or personal property in the United States or elsewhere as may be necessary, proper or desirable for the safe, convenient, successful and profitable conduct of the corporate business.

7. Subject to the restrictions or limitations imposed by law, to purchase or otherwise acquire, hold, own, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of the shares of the capital stock, bonds, obligations or other securities or evidences of indebtedness of other corporations, domestic or foreign, and the good will, name, rights, assets and property of any and every kind, or any part thereof, of any individuals, firms or corporations, domestic or foreign, and if desirable, to issue in exchange therefor, the stock, bonds or other obligations of this Corporation, and, while the owner of such shares of the capital stock, to exercise all rights, powers and privileges of ownership, including the power to vote thereon.

8. Generally to do all and everything necessary, suitable, proper, desirable or advantageous for the furtherance of the corporate business or the accomplishment or attainment of any or all of the objects, purposes and powers of this Corporation, as hereinbefore set forth, either alone or in conjunction with other corporations, associations, firms or individuals, and to do any other act or acts, thing or things incidental or appurtenant to or growing out of or connected with the corporate business or with any or all of the purposes, objects or powers hereinbefore expressed, to the same extent and as fully as natural-born persons might or could do, provided always that the same be not inconsistent with or prohibited by the laws under which this Corporation is organized.

9. The business or purpose of this Corporation is from time to time to do any one or more of the acts or things hereinbefore set forth, and it may conduct such business in all of its branches, or any part thereof, within or outside of the State of New York and in other states, territories, colonies and dependencies of the United States, and in foreign countries.

THIRD: The amount of the Capital Stock is five thousand dollars ($5,000.00).

FOURTH: The number of shares of which the Capital Stock of this Corporation shall consist is fifty (50) shares, of the par value of one hundred dollars ($100.00) each.

The amount of capital with which this Corporation will begin business is five thousand dollars ($5,000.00).

FIFTH: At all elections of Directors of the Corporation, each stockholder shall be entitled to as many votes as shall equal the number of his shares of stock multiplied by the number of Directors to be elected, and he may cast all of such votes for a single director or may distribute them among the number to be voted for or any two or more of them, as he may see fit. Unless otherwise expressly regulated by statute, this right of cumulative voting shall not be repealed or in any other wise impaired without the affirmative vote of at least eighty per cent (80%) in interest of the outstanding Capital Stock of the Corporation, at a meeting duly called for such purposes.

SIXTH: The principal business office of the Corporation is to be located in the Borough of Manhattan, City, County and State of New York.

SEVENTH: The duration of the Corporation is to be perpetual.

EIGHTH: The number of its Directors is to be five (5), three of whom must be stockholders of this Corporation.

NINTH: The names and post-office addresses of the Directors for the first year are as follows:

Names	Post-Office Addresses
L. L. Glenn	205 Fifth Ave., New York City.
John Doe	200 Broadway, New York City
Richard Roe	155 Sixth Ave., New York City.
John Smith	66 W. 35th St., New York City.
Arthur Jones	100 Madison Ave., New York City.

TENTH: The names and post-office addresses of the Subscribers to this Certificate and a statement of the number of shares of stock which each agrees to take in the Corporation are as follows:

Names	Post-Office Addresses	No. of Shares
L. L. Glenn	205 Fifth Ave., N. Y. City.	20
John Doe	200 Broadway, N. Y. City.	15
Richard Roe	155 Sixth Ave., N. Y. City	15

ELEVENTH: The power to make, adopt, repeal or amend the by-laws of the Corporation shall be vested in the stockholders, and except as otherwise expressly provided by statute or in said by-laws, no by-law shall be adopted, repealed, amended or otherwise altered without the affirmative vote of at least a majority in interest of the outstanding Capital Stock of the Corporation at a meeting duly called for that purpose. The by-laws may authorize the Board of Directors to make contracts with the executive officers and other persons for the performance of services at an agreed upon reasonable compensation. But no salaries shall be voted by the Board of Directors themselves merely for acting as such directors, without the ratification by eighty per cent (80%) in interest of the outstanding Capital Stock.

TWELFTH: The Corporation shall have the power, by vote of the majority in interest of the outstanding Capital Stock and subject to the regulations and restrictions imposed by law, to add to its capital stock, to borrow money on the security of its property and on unsecured promissory notes. But such action, to be valid, must be ratified by a two-thirds vote of the outstanding Capital Stock.

In WITNESS WHEREOF, we have made, signed, acknowledged, and filed this certificate in duplicate on the 30th day of September, 19—.

L. L. GLENN.
JOHN DOE.
RICHARD ROE.

On the 1st day of October, 19—, there appeared before me L. L. Glenn, John Doe and Richard Roe to me personally known and known to me to be the persons described in and who executed the foregoing instrument and they duly and severally acknowledged that they executed the same.

FRANK A. JONES,
Notary Public No. 37,000, N. Y. County.
N. Y. Register No. 45,000.

[Seal]

When the duplicate certificate has been returned by the Secretary of State, a meeting of the stockholders is called for the purpose of adopting by-laws which are to govern the officers and directors of the corporation, about to be elected. Thereupon, officers and directors are elected. It is usual to place a copy of the Certificate of Incorporation, sometimes called the charter of the company, in the Minute Book of the corporation. This Minute Book is similar to the Minute Book of any society and in it are recorded all the doings and transactions of the organization which take place at meetings of the stockholders and directors. After the stockholders have paid their subscriptions and appropriate books are opened, the routine entries of a corporation do not differ essentially from the routine entries of any other organization.

The Books of a Corporation

We have already shown a copy of the Certificate of Incorporation and have indicated that a Minute Book is kept. The minutes are usually recorded by a lawyer, but the books themselves should be opened by an accountant. It is therefore important that the student acquire positive knowledge as to the procedure in connection with the opening entries.

The third and fourth clauses in the Certificate of Incorporation show that the authorized capital is $5,000.00. By authorized capital is meant the amount stated in the Certificate and it represents the maximum par or face value for which shares may be issued. By shares are meant fractional parts of the capital. In this case, the authorized capital of $5,000.00 was divided into shares or parts of $100.00 each, and therefore into fifty parts. A "share" or a "share of stock" is one of these parts. The following is an illustration of such stock.

Incorporated Under the Laws of
New York

No. 1 Shares 15

THE L. L. GLENN COMPANY, INC.

AUTHORIZED CAPITAL STOCK $5,000.00

THIS CERTIFIES THAT ....—JOHN DOE—.......... is the owner of ....FIFTEEN.......... Shares of the Capital Stock of

THE L. L. GLENN COMPANY (INC.)

fully paid and nonassessable

transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly indorsed.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its duly authorized officers and to be sealed with the Seal of the Corporation, this ____15th____ day of ____October____ A.D., 19—.

John Doe
Secretary.

Richard Roe
President.

SHARES $100 EACH

The above form is also referred to as a certificate of stock or as a stock certificate. One such certificate is usually issued to each shareholder or stockholder and shows the number of shares which he owns. This ownership is indicated by filling in the blank space

.... Shares of the Capital Stock of"

Questions

1. Distinguish between a corporation, partnership and sole proprietorship.
2. What is meant by the capitalization of a corporation?
3. How does the capital stock of a corporation differ from its net capital or net worth?
4. Summarize the steps which are necessary to incorporate a manufacturing company in your state.
5. What is meant by the Certificate of Incorporation?
6. What is a stock certificate?

No exercises are suggested for this section.

51. Opening Entries for Corporations

Case I.—We are now about to show the opening Journal entry to record the fact that The L. L. Glenn Company was organized with an authorized capital of $5,000.00 and that all of the shares were subscribed for as shown in the 10th clause of the Certificate.

October 15, 19—

	Dr.	Cr.
The L. L. Glenn Company Incorporated under the laws of the State of New York with an Authorized Capital of $5000.00 divided into 50 shares each of a par value of $100.00		
Subscriptions	5000 00	
Capital Stock		5000 00
The following are the subscribers to all of the Capital Stock of this Company:		
L. L. Glenn 20 shares		
John Doe 15 shares		
Richard Roe 15 shares		

Subscribers are persons who have agreed to buy shares of stock. The purpose of the opening entry is to record the fact that various people have agreed to take the $5,000.00 worth of stock. Unlike a similar situation in a partnership, an entry must be made for their willingness to take this stock, even though they have not yet paid for it. Accordingly, some account must be opened to show that various subscribers have become liable to the L. L. Glenn Company, for the purchase of the fifty (50) shares of stock to be subsequently issued.

A popular entry is shown on the preceding page.

The student should note that the entry consists of two parts. The introduction, corresponding to the introduction in an ordinary organization, is sometimes referred to as the preamble. The second part is the technical entry, resulting in debits and credits of equal amount. The Subscriptions [1] account is a summary of all the claims of the corporation against the individual subscribers. It represents, in a sense, what individual subscribers, later to become stockholders or shareholders, as stock is actually issued to them, owe to the corporation. From this point of view, it is somewhat analogous to Accounts Receivable, the summary or controlling account of all the trade debtors of an organization. This Subscriptions account, which is opened in the General Ledger, though it gives information as to the total indebtedness of subscribers to the corporation, still fails to show how much individual subscribers owe. It is therefore necessary to keep a record with these individual subscribers. In small organizations, this is frequently kept in the Minute Book, and for our purposes the form employed in such Minute Book is sufficient. It is as follows:

DATE	NAME OF SUBSCRIBER	ADDRESS	NO. OF SHARES SUBSCRIBED FOR	PRICE PER SHARE	HOW PAID					
					DATE	AMOUNT	DATE	AMOUNT	DATE	AMOUNT

The foregoing form is undoubtedly self-explanatory. Just a word, however, regarding the rulings to the right of the Amount column. Inasmuch as subscribers sometimes cancel their subscriptions by partial

[1] Other forms of opening entries are also employed. The one here shown is probably as simple as any.

payments, called installments, some provisions must be made to record such payments on account. In large corporations, forms for such installment payments are necessarily more elaborate. When a stockholder pays for his subscription, an entry must be made canceling his indebtedness to the corporation, as shown by the Subscriptions account. Thus, on the assumption that Messrs. Glenn and Doe have paid for their subscriptions in full, the following is the entry:

Cash		$3,500.00	
Subscriptions			$3,500.00
Cancellation of subscriptions as follows:			
L. L. Glenn	20 shares		
John Doe	15 shares		

The credit of $3,500.00 to Subscriptions account reduces the amount still collectible to $1,500.00, which fact is shown by the Subscriptions account in the General Ledger.

Instead of issuing receipts to Messrs. Glenn and Doe, in acknowledgment of their payments, certificates of stock are given. These certificates are taken from what is known as a Stock Certificate Book, consisting of stubs with detachable certificates. The certificate issued to Mr. Glenn, together with the stub to which it is attached, is shown on page 289.

After all the subscriptions have been paid, the Subscriptions account will be closed. The Capital Stock account, credited for $5,000.00, represents now not only the amount of the authorized capital but the actual amount of capital invested. Corresponding to this Capital Stock account, there should be accounts with individual stockholders, so as to disclose who the owners of the organization really are. Such individual accounts with stockholders are kept in what is known as the Stockholder's Ledger or Stock Ledger. Very frequently the Stock Ledger is a card ledger device, but in small organizations the Stock Ledger may be incorporated in the Minute Book. The debit side of such a Ledger is shown below, while the credit side appears on page 290.

Stock Ledger

(Debit Side)

Date.	Certificate Nos.	No. of Shares.	How Canceled.	Par Value.


#10
CERTIFICATE
No.
For Twenty Shares
Issued to
L. L. Glenn
Dated Oct 15, 19—
FROM WHOM TRANSFERRED
Dated 19
No. Original Certificate
No. Original Shares
No. of Shares Transferred
Received Certificate No. 1
For Twenty Shares
this 16th day of Oct 19—
L. L. Glenn
NUMBER
SHARES
This Certifies that

(Credit Side)

Date.	Certificate Nos.	No. of Shares.	How Acquired.	Par Value.

The student should note that the Capital Stock account controls the individual accounts in the Stock Ledger. In this sense the Capital Stock account is truly a controlling account. Until such time as all subscriptions have been paid, the Capital Stock account, minus the debit balance of the Subscriptions account, controls the Stock Ledger.

Case II.—In Case I we considered the entry resulting from the simplest form of corporate organization. But it is not true that all corporations secure immediate subscriptions to all of the authorized capitalization and that these subscriptions are at once paid in cash. As a second situation, we will assume that the Glenn company, though organized with an authorized capital of $5,000.00, secured subscriptions for only $3,000.00. The question before us now is what opening entry is necessary?

If four men decided to form a partnership, each man to invest $1,250.00, but if each man invested only $750.00, the opening entry of the partnership would record the fact that the total investment was $3,000.00 and would entirely ignore the *intentions* of the partners to invest $5,000.00. But in a corporation, it is usual to record the full amount of the authorized capital, despite the fact that all of it was not subscribed for. The entry is essentially as follows:

Subscriptions	$3,000.00	
?	2,000.00	
Capital Stock		$5,000.00

What is the name of the account to be debited for $2,000.00? The simplest solution is to record the fact that, though $5,000.00 was authorized, $2,000.00 was unsubscribed for. Accordingly Unsubscribed Stock account is frequently employed. The formal entry then is as shown on page 291.

As each subscriber cancels his indebtedness to the Company, an entry is made, as the student has already learned, charging Cash and crediting Subscriptions. But as it is quite likely that the corporation may secure additional subscriptions, it is well for us to learn what entry

		October 1, 19—				
		THE L. L. GLENN COMPANY, INC. Incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $5,000.00 divided into 50 shares, each of a par value of $100.00.				
		Subscriptions	3,000	00		
		Unsubscribed Stock	2,000	00		
		Capital Stock			5,000	00
		L. L. Glenn 10 shares				
		John Doe 10 shares				
		Richard Roe 10 shares				

is necessitated by such additional subscriptions. Thus, let us assume that Richard Roe has subscribed for three additional shares. What is the entry? Does the following appeal to you?

Subscriptions	$300.00	
Capital Stock		$300.00

Is it a fact that subscriptions have been increased? Then the debit entry is correct. Is it a fact that Capital Stock has been increased? This cannot be so, because the original entry credited the Capital Stock account for the full amount authorized and there has been, of course, no increase of the amount authorized by law. The credit entry is therefore incorrect. Now what is it that Mr. Roe has really subscribed to? Is it not to the stock previously unsubscribed, i.e., to Unsubscribed Stock? The entry is accordingly:

Subscriptions	$300.00	
Unsubscribed Stock		$300.00
To record subscriptions of Richard Roe for three shares at par.		

When all of the unsubscribed stock has been subscribed for and all of the subscriptions have been paid, then both the Subscriptions account and the Unsubscribed Stock account will be closed and the

open accounts will be exactly the same as those which were found to exist in Case I, above. The Balance Sheet shown on page 308, following, illustrates how the unsubscribed stock is sometimes shown on financial statements.

Case III.—In Cases I and II, above, we considered the opening entries resulting from the organization of a new corporation. But occasion also arises for opening the books of a sole proprietorship which after existing as such for some time, decides to incorporate. It will be necessary, therefore, to learn what entries are necessitated by incorporating such an organization. For purposes of illustration, let us consider the situation created when Mr. L. L. Glenn, who is in business for himself, decides to incorporate under the laws of New York State, with an authorized capital of $10,000.00, and whose financial condition at that time, is reflected by the following Balance Sheet:

Balance Sheet of L. L. Glenn as of October 1, 19—

Assets:		*Liabilities:*	
Cash	$1,500.00	Accounts Payable	$2,500.00
Mdse. Inventory	3,200.00	Notes Payable	2,000.00
Accounts Receivable	9,000.00	Total Liabilities	4,500.00
Furniture and Fixtures	800.00		
		Capital:	
		L. L. Glenn	10,000.00
	$14,500.00		$14,500.00

It may be taken for granted that all of the necessary legal requirements have been complied with. A single question remains before proceeding to the formal entry. It is whether Mr. Glenn wishes the old books to be continued or whether he prefers to open an entirely new set of books. We shall present both solutions.

Solution A.—The old books to be continued:

The student already knows that under the laws of New York State a corporation cannot be organized with less than three subscribers. Accordingly, if Mr. Glenn wishes to incorporate his business, he must provide two additional subscribers. Immediately after the business has been organized, however, if he so chooses, he may arrange to have the other two stockholders transfer or sell their stock to him. Aside from the point raised, it is necessary for us to realize that, if Mr. Glenn incorporates his business, his action is equivalent to a sale made by

Mr. Glenn, personally, to the new corporation. Various entries are employed, but we shall present one of the simplest methods whereby corporation books will be substituted for the individual books of Mr. Glenn. First of all, it is assumed that the routine entries in the Minute Book, Subscription Book, Certificate Book and Stock Ledger have been made. The following Journal entry will record the creation of the corporation and will effect the necessary change in the accounts.

		October 1, 19—				
		THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $10,000.00 divided into 100 shares, each of a par value of $100.00				
		Subscriptions	10,000	00		
		Capital Stock			10,000	00
		The following are the subscribers to all of the Capital Stock of this Company:				
		L. L. Glenn — 98 shares				
		John Doe — 1 share				
		Richard Roe — 1 share				
		1				
		L. L. Glenn, Capital	10,000	00		
		Subscriptions			10,000	00
		L. L. Glenn has this day transferred his rights and interests in his business to the L. L. Glenn Company, Inc., as per agreement recorded in the Minute Book, page 34, in full cancellation of his subscription to 98 shares of capital stock and of John Doe's one share and Richard Roe's one share.				

The student should make it a point thoroughly to master the foregoing entries. He should note that the account of Mr. Glenn has disappeared from the books as it should, and that its place has been taken by the Capital Stock account. Subscriptions account, which was temporarily opened, was immediately closed. The old asset accounts, which were transferred to the corporation and the corresponding liability accounts, which were assumed by the corporation, remain untouched as the books are to be continued and no changes take place in these asset and liability accounts.

The Balance Sheet of the Corporation is now as follows:

Balance Sheet of The L. L. Glenn Company, Inc., October 1, 19—

Assets:		*Liabilities:*	
Cash	$1,500.00	Accounts Payable	$2,500.00
Mdse. Inventory	3,200.00	Notes Payable	2,000.00
Accounts Receivable	9,000.00	Total Liabilities	4,500.00
Furniture and Fixtures	800.00		
		Capital:	
		Capital Stock	$10,000.00
	$14,500.00		$14,500.00

A comparison between the above Balance Sheet and that of L. L. Glenn (page 292) will disclose the fact that just a single difference exists, namely, "Capital Stock $10,000.00," has taken the place of "L. L. Glenn, Capital $10,000.00."

Solution B.—A new set of books to be employed:

The problem now is more complicated than in Solution A, for it involves the closing of the old books besides the opening of the new ones. We shall first close the old books. *Caution:* Consider the books of Mr. Glenn as still open, and, of course, conducted as the books of a sole proprietorship, not as corporation books.

(*a*) To close the old books:

As Mr. L. L. Glenn has sold his entire business to the L. L. Glenn Company, Incorporated, we must record this transaction fully. The steps involved consist of transferring the assets to the Company, the assumption of the liabilities by the Company, and the payment by the Company for the business.

		Oct. 1, 19—				
		The L. L. Glenn Company, Inc.	14,500	00		
		Cash			1,500	00
		Mdse. Inventory			3,200	00
		Accounts Receivable			9,000	00
		Furniture and Fixtures			800	00
		I have this day transferred all my assets to the L. L. Glenn Co., Inc., as per agreement.				
		1				
		Accounts Payable	2,500	00		
		Notes Payable	2,000	00		
		The L. L. Glenn Company, Inc.			4,500	00
		The L. L. Glenn Co., Inc. has assumed all my existing liabilities, as per agreement.				

After posting the two foregoing entries, only two open accounts will remain, and these are:

L. L. Glenn, Capital

	$10,000.00

The L. L. Glenn Co., Inc.

19—	19—
Oct. 1 $14,500.00	Oct. 1 $4,500.00

Mr. Glenn's account shows his net capital. The account with the Company shows that it has received $14,500.00 and that it has reduced its indebtedness by $4,500.00, so that it still owes us the balance of $10,000.00. It will pay this balance by giving us $10,000.00 of its stock, which will close its account on our books. As Mr. Glenn will take the stock in full payment, his account will be charged, closing it also. Accordingly, all the accounts, and hence the books, will be closed:

Oct. 1, 19—		
L. L. Glenn, Capital	$10,000.00	
The L. L. Glenn Co., Inc.		$10,000.00

Received 100 shares of the L. L. Glenn Co., Inc. stock in full payment for my business.

Some accountants would make two separate entries for the final transactions:

	Oct. 1, 19—	
L. L. Glenn Co. Stock	$10,000.00	
The L. L. Glenn Co. Inc.		$10,000.00
Received 100 shares of the L. L. Glenn Co. stock, in full payment of its account.		
L. L. Glenn, Capital	$10,000.00	
The L. L. Glenn Co. Stock		$10,000.00
Mr. Glenn accepted The L. L. Glenn Co. stock in full payment of his account.		

Either the first entry, which is the simpler, or the second, which consists of two steps, is correct. The student may select either one.

(*b*) Opening the new books:

After closing the old books, it is necessary to open a new set. This is a very simple procedure, and should not prove difficult, for the entries are similar to those shown in Cases I and II, above. The entries on page 297 accomplish the desired purpose.

The student may notice that the explanation appended to the foregoing entry is not identical with the one following the similar entry on page 293. The difference is purposeful, as it is intended to emphasize the fact that remarks explanatory of original entries should be clear, concise and complete. The phrasing employed is individual; learn to express the idea in your own words.

A Balance Sheet of the Corporation would now be prepared. It would be exactly the same as the one shown on page 294.

Case IV.—In Case III we discussed the conversion of a sole proprietorship into a corporation. We shall now consider the change from

L. L. Glenn and Company as of December 1, 19—

Assets:		*Liabilities:*		
Cash	$1,500.00	Accounts Payable		$2,500.00
Mdse. Inventory	3,200.00	Notes Payable		2,000.00
Accounts Receivable	9,000.00	Total Liabilities		4,500.00
Furniture and Fixtures	800.00			
		Capital:		
		L. L. Glenn	$5,000.00	
		John Doe	3,000.00	
		Richard Roe	2,000.00	10,000.00
	$14,500.00			$14,500.00

	Oct. 1, 19—				
	THE L. L. GLENN COMPANY, INC. has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $10,000.00 divided into 100 shares, each of a par value of $100.00				
	Subscriptions	10,000	00		
	Capital Stock			10,000	00
	The following are the subscribers to all of the Capital Stock of this Company:				
	L. L. Glenn 98 shares				
	John Doe 1 share				
	Richard Roe 1 share				
	Cash	1,500	00		
	Mdse. Inventory	3,200	00		
	Accounts Receivable	9,000	00		
	Furniture and Fixtures	800	00		
	Accounts Payable			2,500	00
	Notes Payable			2,000	00
	Subscriptions			10,000	00
	Accepted in full of all subscriptions to the capital stock of this Company, the business of L. L. Glenn, as per agreement recorded in Minute Book, page ——.				

a partnership to a corporation under similar conditions. In order to simplify our task, let us assume a partnership consisting of three members, whose business condition on October 1, 19—, is reflected in the Balance Sheet shown on the preceding page.

It is desired to convert this business into a corporation, The L. L. Glenn Company, Inc., with a capital of $10,000.00, all to be issued to

the members of the firm of L. L. Glenn & Company. For this purpose Articles of Incorporation are drawn up and the necessary preliminary steps are taken, all as detailed on pages 280–284. The essential difference is that the subscribers in this case are as follows:

L. L. Glenn, 50 Shares; John Doe, 30 Shares; Richard Roe, 20 Shares.

As in the case of the sole proprietorship, we shall discuss two cases: (*a*) the old books to be continued, and (*b*) a new set of books to be employed.

Solution A.—The old books to be continued:

	Oct. 1, 19—				
	THE L. L. GLENN COMPANY, INC. has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $10,000.00 divided into 100 shares, each of a par value of $100.00				
	1				
	Subscriptions	10,000	00		
	Capital Stock			10,000	00
	The following are the subscribers to all of the Capital Stock of this Company: L. L. Glenn 50 shares John Doe 30 shares Richard Roe 20 shares				
	1				
	L. L. Glenn, Capital	5,000	00		
	John Doe, Capital	3,000	00		
	Richard Roe, Capital	2,000	00		
	Subscriptions			10,000	00
	Messrs. L. L. Glenn, John Doe and Richard Roe have this day transferred their rights and interests in their business to the L. L. Glenn Company, Inc., as per agreement recorded in the Minute Book, page —, in full cancellation of their subscriptions.				

Just as in the case of a sole proprietorship, the effect of the final entry is to substitute Capital Stock account ($10,000.00) for the accounts of the men who sold their interest in the old firm to the corporation, Mr. Glenn ($5,000.00), Mr. Doe ($3,000.00) and Mr. Roe ($2,000.00). It is unnecessary to show the Balance Sheet of the corporation at this point, because it is identical with the one shown on page 294.

Solution B.—A new set of books to be employed:

We know that, before we open the new books, we must close the old ones. We proceed to do so at once.

(*a*) To close the old books:

	October 1, 19—				
	The L. L. Glenn Company, Inc.	14,500	00		
	Cash			1,500	00
	Mdse. Inventory			3,200	00
	Accounts Receivable			9,000	00
	Furniture and Fixtures			800	00
	We have this day transferred all our assets to the L. L. Glenn Co., Inc., as per agreement.				
	1				
	Accounts Payable	2,500	00		
	Notes Payable	2,000	00		
	The L. L. Glenn Company, Inc.			4,500	00
	The L. L. Glenn Company, Inc., has assumed all our existing liabilities, as per agreement.				
	1				
	L. L. Glenn, Capital	5,000	00		
	John Doe, Capital	3,000	00		
	Richard Roe, Capital	2,000	00		
	The L. L. Glenn Company, Inc.			10,000	00
	Received 100 shares of the Capital Stock of the L. L. Glenn Company, Inc., in full payment of our business, distributed as follows:				
	L. L. Glenn 50 shares				
	John Doe 30 shares				
	Richard Roe 20 shares				

The books of the partnership are now closed so that we are ready to open the new books of the corporation.

(*b*) To open the new books:

	October 1, 19—			
	THE L. L. GLENN COMPANY, INC. has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $10,000.00 divided into 100 shares, each of a par value of $100.00			
	Subscriptions	10,000 00		
	Capital Stock			10,000 00
	The following are the subscribers to all of the Capital Stock of this Company:			
	L. L. Glenn 50 shares			
	John Doe 30 shares			
	Richard Roe 20 shares			
	Cash	1,500 00		
	Mdse. Inventory	3,200 00		
	Accounts Receivable	9,000 00		
	Furniture and Fixtures	800 00		
	Accounts Payable			2,500 00
	Notes Payable			2,000 00
	Subscriptions			10,000 00
	Accepted in full of all subscriptions to the Capital Stock of this Company, the business of L. L. Glenn & Co., as per agreement recorded in the Minute Book, page ——.			

The explanations of the solution for Case IV have purposely been curtailed, as it is assumed that the student will master Case III before studying the fourth case. However, should the foregoing entries not be entirely clear, re-read the earlier discussion as the same principles are involved in the later problems.

Case V.—We are now ready to introduce a more complicated situation than any discussed in the foregoing cases. Suppose that The

	October 1, 19—				
	Good Will	5,000	00		
	L. L. Glenn, Capital			2,500	00
	John Doe, Capital			1,500	00
	Richard Roe, Capital			1,000	00
	To set up good will allowed us by the L. L. Glenn Co., Inc., as per agreement, and to distribute same among the members of the firm.				
	1				
	THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $15,000.00 divided into 100 shares, each of a par value of $100.00				
	1				
	Subscriptions	15,000	00		
	Capital Stock			15,000	00
	The following are the subscribers to all of the Capital Stock of this Company:				
	L. L. Glenn 75 shares				
	John Doe 45 shares				
	Richard Roe 30 shares				
	1				
	L. L. Glenn, Capital	7,500	00		
	John Doe, Capital	4,500	00		
	Richard Roe, Capital	3,000	00		
	Subscriptions			15,000	00
	L. L. Glenn & Co., have this day transferred their rights and interests in their business to the L. L. Glenn Company, Inc., as per agreement recorded in the Minute Book, page —, in full cancellation of the following subscriptions to the Capital Stock of the Company.				
	L. L. Glenn 75 shares				
	John Doe 45 shares				
	Richard Roe 30 shares				

L. L. Glenn Company was incorporated with an authorized capital stock of $15,000.00 all of which was issued to the firm of L. L. Glenn & Co. for its business. Again we shall have to consider the accounting procedure, both when the old books are to be continued and when a new set is to be used.

Solution A.—The old books to be continued:

You should carefully grasp the essential fact involved in this problem, namely, that the corporation was to pay $15,000.00 to the firm for the latter's net capital. The principle involved may be stated in bookkeeping terms, thus:

Stock	$15,000.00	
Firm Capital		$10,000.00
?		5,000.00

What else did the firm give besides its capital of $10,000.00? Under partnerships we were introduced to the meaning of "Good Will." (See pages 257–258.) Good Will is exactly what the corporation bought when it paid an excess of $5,000.00 for the firm's capital. Accordingly, it is necessary to "set up" good will on the books of the firm. This is accomplished by opening the new account and crediting the members of the firm for their respective shares of the profit earned by virtue of the fact that the corporation paid them more than the replacement value for their net capital.

Another question remains for settlement before we are ready for the necessary entry, namely, how much of this $5,000.00 shall be credited to Messrs. Glenn, Doe and Roe, respectively? In the absence of a specific agreement to the contrary, partners, as the student knows, share in profits and losses equally. In this case, we shall assume that the Articles of Copartnership provide for the division of profits in proportion to the partners' capitals. The entry then is shown as on page 301.

The books of L. L. Glenn & Co., have now been changed to the

Balance Sheet of The L. L. Glenn Company, Inc., October 1, 19—

Assets:		*Liabilities:*	
Cash	$1,500.00	Accounts Payable	$2,500.00
Merchandise Inventory	3,200.00	Notes Payable	2,000.00
Accounts Receivable	9,000.00	Total Liabilities	4,500.00
Furniture and Fixtures	800.00		
Good Will	5,000.00	*Capital:*	
		Capital Stock	15,000.00
	$19,500.00		$19,500.00

books of The L. L. Glenn Co., Inc., a corporation. Future transactions will be entered as hitherto, because, as previously explained, sales and purchases and all other routine items are treated alike on the books of any organization regardless of the form of the proprietorship. The corporate Balance Sheet is now as shown on page 302.

Solution B.—A new set of books to be employed:

(*a*) To close the old partnership books:

	October 1, 19—				
	Good Will	5,000	00		
	L. L. Glenn, Capital			2,500	00
	John Doe, Capital			1,500	00
	Richard Roe, Capital			1,000	00
	To set up good will allowed us by The L. L. Glenn Co., Inc., as per agreement, and to distribute same among the members of the firm.				

This entry is similar to the one shown on page 301. Note that good will has been included to cancel this account as well as to transfer it.

	1				
	The L. L. Glenn Co., Inc.	19,500	00		
	Cash			1,500	00
	Mdse. Inventory			3,200	00
	Accounts Receivable			9,000	00
	Furniture and Fixtures			800	00
	Good Will			5,000	00
	We have transferred all our assets, inclusive of good will, to The L. L. Glenn Co., Inc., as per agreement.				
	Accounts Payable	2,500	00		
	Notes Payable	2,000	00		
	The L. L. Glenn Co., Inc.			4,500	00
	The L. L. Glenn Co., Inc. has assumed all our existing liabilities, as per agreement.				

		1		
		L. L. Glenn, Capital	7,500.00	
		John Doe, Capital	4,500.00	
		Richard Roe, Capital	3,000.00	
		The L. L. Glenn Co., Inc.		15,000.00
		Received 150 shares of The L. L. Glenn Co., Inc. stock in full payment of our business, distributed as follows:		
		L. L. Glenn — 75 shares		
		John Doe — 45 shares		
		Richard Roe — 30 shares		

(*b*) To open the books of the corporation:

		October 1, 19—		
		THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $15,000.00 divided into 150 shares, each of a par value of $100.00		
		Subscriptions	15,000.00	
		Capital Stock		15,000.00
		The following are the subscribers to all of the Capital Stock of this Company:		
		L. L. Glenn — 75 shares		
		John Doe — 45 shares		
		Richard Roe — 30 shares		

	1			
	Cash	1,500 00		
	Mdse. Inventory	3,200 00		
	Accounts Receivable	9,000 00		
	Furniture and Fixtures	800 00		
	Good Will	5,000 00		
	Accounts Payable		2,500 00	
	Notes Payable		2,000 00	
	Subscriptions		15,000 00	
	Accepted the business of L. L. Glenn & Co. in full cancellation of all subscriptions to the capital stock of this Company, as follows:			
	L. L. Glenn 75 shares			
	John Doe 45 shares			
	Richard Roe 30 shares			

The Balance Sheet shown on page 302 is, of course, applicable to the corporation at this time.

In Cases III, IV, and V, an opportunity has been presented to become familiar with the more usual situations which arise when non-corporate organizations become corporations. Probably not many students will find occasion to handle more involved changes than those which have been shown. But for the sake of those who are sufficiently interested to wish immediately to pursue the subject further, let us intrude upon the domain of accounting texts just sufficiently to discuss two additional cases. The first will treat of the L. L. Glenn Company if it incorporates for $20,000.00, $15,000.00 of which is issued to the old firm, and new subscribers secured for some of the additional capital stock. The last case in the series will discuss the entries when the L. L. Glenn Company incorporates for only $8,000.00 and issues this amount in full payment for the $10,000.00 business of the old firm.

Case VI.—The L. L. Glenn Company, Inc., was originated with a capital stock of $20,000.00, $15.000.00 of which was issued to L. L. Glenn & Co., for their business, including its good will; outside subscriptions were secured for $3,800.00, and $1,200.00 remained unsubscribed for. We shall present the opening entries, just as previously, under two conditions: (A) The old books to be continued; (B) A new set of books to be employed.

Solution A.—The old books to be continued:

			Dr.	Cr.
		October 1, 19—		
		Good Will	5,000.00	
		L. L. Glenn, Capital		2,500.00
		John Doe, Capital		1,500.00
		Richard Roe, Capital		1,000.00
		To set up good will allowed us by The L. L. Glenn Co., Inc., as per agreement, and to distribute same among the members of the firm.		
		1		
		THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $20,000.00 divided into 200 shares, each of a par value of $100.00		
		Subscriptions	18,800.00	
		Unsubscribed Stock	1,200.00	
		Capital Stock		20,000.00
		The following are the subscribers to all of the Capital Stock of this Company:		
		L. L. Glenn — 75 shares		
		John Doe — 45 shares		
		Richard Roe — 30 shares		
		Frank Fee — 25 shares		
		Benjamin Tracey — 13 shares		

Note that Mr. Fee subscribed for twenty-five of the additional shares of stock and Mr. Tracey for thirteen shares. The stock not subscribed for is carried in the Unsubscribed Stock account as shown above.

When the business of L. L. Glenn & Company is transferred to the Corporation, The L. L. Glenn Company, Inc., the former's subscription to $15,000.00 of the latter's capital stock is canceled. The entry

for this transfer and cancellation is exactly the same as on page 301, but it is here repeated, slightly changed, for the sake of convenience:

		October 1, 19—		
		L. L. Glenn, Capital	7,500.00	
		John Doe, Capital	4,500.00	
		Richard Roe, Capital	3,000.00	
		Subscriptions		15,000.00
		Messrs. L. L. Glenn & Co., have this day transferred their rights and interests in their business to the L. L. Glenn Co., Inc., as per agreement recorded in the Minute Book, page ——, in full cancellation of their subscriptions to the Capital Stock of the Company.		
		L. L. Glenn 75 shares		
		John Doe 45 shares		
		Richard Roe 30 shares		

Before we leave this topic let us make the entry on the assumption that Frank Fee paid $1,000.00 in cash on account of his subscription for twenty-five shares of stock. The entry would be made in the Cash Book, of course, and it would be equivalent to the following Journal entry:

	Date	
Cash	$1,000.00	
Subscriptions		$1,000.00

Frank Fee paid cash on account of his subscription to 25 shares of stock.

Though it is scarcely necessary to show the Cash Book entry corresponding to the foregoing Journal entry, it is herewith presented:

Cash Receipts

		Subscriptions	Frank Fee	1,000.00	

After all of the foregoing opening entries had been posted, and before any routine transactions had occurred, the following Balance Sheet could be prepared:

Balance Sheet of The L. L. Glenn Company, Inc., as of October 1, 19—

Assets:		*Liabilities:*		
Cash	$2,500.00	Accounts Payable		$2,500.00
Mdse. Inventory	3,200.00	Notes Payable		2,000.00
Accounts Receivable	9,000.00	Total Liabilities		4,500.00
Subscriptions	2,800.00			
Furniture and Fixtures	800.00	*Capital:*		
Good Will	5,000.00	Capital Stock		
		Authorized	$20,000.00	
		Less Unsubscribed Stock	1,200.00	18,800.00
	$23,300.00			$23,300.00

Comments.—(1) The balance of cash was obtained by adding the amount received from Mr. Fee ($1,000.00) to the balance transferred by the firm of L. L. Glenn & Co., ($1,500.00).

(2) The Subscriptions account in the General Ledger appears as follows:

Subscriptions

19—			19—		
Oct. 1	L. L. Glenn	$7,500.00	Oct. 1	L. L. Glenn & Co.	$15,000.00
	John Doe	4,500.00		Frank Fee	1,000.00
	Richard Roe	3,000.00			
	Frank Fee	2,500.00			
	Benj. Tracey	1,300.00			

The difference between the total subscriptions ($18,800.00) and the amount canceled ($16,000.00) gives the balance still unpaid ($2,800.00). This balance is an asset, because it is a legal claim against the subscribers, and it is so shown on the Balance Sheet.

(3) Note how the capital is shown. The amount authorized by the officials of the State was $20,000.00, and of this amount $18,800.00 had been subscribed or sold. Instead of showing the $1,200.00 of unsubscribed stock among the assets, it is deducted from the total capitalization so as to arrive at the figure for the real capital. This $18,800.00 is quite frequently called "issued stock" and the unsubscribed stock,

"unissued stock." The verb "issued" is to be restricted to its technically legal sense and not given its everyday meaning. Thus, though not all of the subscribed stock has been *physically* issued or delivered to the subscribers, it has been sold, and for our present purposes it is sufficient that we regard "issued stock" and "sold stock" as synonymous.

Possibly another word regarding "unsubscribed stock" would be helpful to the student. As was fully explained previously, when two individuals decide to form a partnership, each to invest $2,500.00, and if they then invest only $2,000.00, the resulting entry would express what actually took place rather than what was contemplated. Similarly when a corporation is organized with an authorized capital of $10,000.00, but issues only $8,000.00, the essential facts would be shown by the following:

Cash	$8,000.00	Capital Stock	$8,000.00

The fact that the Corporation was authorized to issue $10,000.00 of stock need not affect the entry to any greater extent than a similar intention on the part of partners to invest more than they actually do, affects the entry for the investment of the members of a firm. A slight difference may be detected, however. Partners may increase or decrease their investments as occasion arises. Corporations cannot increase their authorized capitalization without express authority from certain state officials. Accordingly, it has become quite customary to show on the books of corporations the full amount of authorized capital, irrespective of whether such stock has been subscribed for or not. Surely, the amount unsubscribed is no more a corporate asset than is the intention of a partner to invest more than he actually does an asset of the firm. Unsubscribed Stock should, therefore, not be regarded as an asset, and if the entire authorized capital is entered, the "unissued" amount should be deducted from the nominal amount, as shown on the Balance Sheet, page 308:

	Capital Stock Authorized	$20,000.00
	Less Unsubscribed Stock	1,200.00
	Issued Stock	$18,800.00

Solution B.—A new set of books to be employed:

(*a*) To close the old partnership books:

The problem here is exactly the same as in Case V, page 303. What bookkeeping difference does it make to Messrs. L. L. Glenn & Co., whether they sell their business for $15,000.00 to a $75,000.00 or to a $20,000.00 corporation? Their books will be closed without regard to the " size " or wealth of the buying (vendee) corporation.

(*b*) To open the new corporation books:

	October 1, 19— THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $20,000.00 divided into 200 shares, each of a par value value of $100.00		
	1		
	Subscriptions	18,800.00	
	Unsubscribed Stock	1,200.00	
	Capital Stock		20,000.00
	The following are the subscribers to all of the Capital Stock of this Company:		
	L. L. Glenn — 75 shares		
	John Doe — 45 shares		
	Richard Roe — 30 shares		
	Frank Fee — 25 shares		
	Benjamin Tracey — 13 shares		
	1		
	Cash	1,500.00	
	Mdse. Inventory	3,200.00	
	Accounts Receivable	9,000.00	
	Furniture and Fixtures	800.00	
	Good-Will	5,000.00	
	Accounts Payable		2,500.00
	Notes Payable		2,000.00
	Subscriptions		15,000.00
	Accepted the business of L. L. Glenn & Co. in full cancellation of all subscriptions to the capital stock of this Company.		

		1				
		Cash	1,000	00		
		Subscriptions			1,000	00
		Frank Fee paid cash on account of his subscription to 25 shares of stock.				

The opening Balance Sheet has already been shown (see page 308). There remains for discussion in the present series, as outlined on page 305, just another situation. This is our seventh case, and deals with the entries when a partnership " sells out " for less than its net capital.

Case VII.—The L. L. Glenn Company, Inc. has been organized with an authorized capital of $8,000.00, all of which has been issued to the firm of L. L. Glenn & Company for the latter's business. As in the other cases, we shall show how to continue the old books as well as how to introduce a new set.

Solution A.—The old partnership books to be continued:

The student should recall that when the partnership received a $5,000.00 profit for its business (page 301), the gain was called good will and it was set up as follows:

Good Will	$5,000.00	
L. L. Glenn, Capital		$2,500.00
John Doe, Capital		1,500.00
Richard Roe, Capital		1,000.00

Now that there is a loss of $2,000.00, this solution may possibly suggest itself:

L. L. Glenn	$1,000.00	
John Doe	600.00	
Richard Roe	400.00	
" Bad Will "		$2,000.00

Observe that the loss is charged to each partner's account in the same proportion that each was to share in profits. The credit to the logical opposite of good will is wrong, because it is not sanctioned by practice. Still, no matter what solution we finally agree upon, each partner's account must be charged with his share of the loss. Let us defer the solution for a few moments, as we shall come to it very soon.

October 1, 19—		
THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $8,000.00 divided into 80 shares, each of a par value of $100.00		
Subscriptions	8,000 00	
Capital Stock		8,000 00
The following are the subscribers to all of the Capital Stock of this Company:		
L. L. Glenn 40 shares		
John Doe 24 shares		
Richard Roe 16 shares		
1		
L. L. Glenn, Capital	5,000 00	
John Doe, Capital	3,000 00	
Richard Roe, Capital	2,000 00	
Subscriptions		8,000 00
Surplus		2,000 00
Cancellation of all the subscriptions to the Capital Stock of this Company by the transfer of the business of Messrs. L. L. Glenn & Co., all as per agreement entered into this day, and shown in the Minute Book, pages — to —.		
Value of the business transferred to this Company $10,000.00		
Subscriptions canceled 8,000.00		
Profit to the Company $2,000.00		

If the student will recall that the firm of L. L. Glenn & Co., is, in the eyes of the law, a separate and distinct organization from the corporation of The L. L. Glenn Company, Inc., it should not be difficult for him to understand how the firm could lose \$2,000.00 (a \$10,000.00 business *sold* for \$8,000.00) while the corporation made \$2,000.00 on the transaction (a \$10,000.00 business *bought* for \$8,000.00). This profit to the corporation is carried to the Profit and Loss account, usually called the Surplus account as will be explained later, that is, on pages 334 and 335 of the text.

But, the question may be asked, where in the books is a record found of the firm's loss of \$2,000.00? This is not specifically shown where the old books are continued as corporation books, but it is more clearly shown in Solution B (page 316). Still, the apparent loss is clear enough. Mr. L. L. Glenn, for example, received only \$4,000.00 of stock at par for his \$5,000.00 interest in the old firm, as shown by his old Ledger account. The loss of the other members of the firm may be similarly traced. Nevertheless the loss may be, and probably is, only an apparent one. Is it not a fact that the face or par value of stock and its market value is not the same? Thus, Bethlehem Steel stock, with a par value of \$100.00 was quoted at \$700.00, in 1916, and similarly for many others. There is still another way to view the problem. Surely the business is intrinsically worth as much immediately after incorporation as just prior thereto. This value is \$10,000.00. (Total assets \$14,500.00, less total liabilities \$4,500.00.) The ownership of the business is divided into 80 shares ($80 \times \$100.00 = \$8.000.00$, authorized capitalization). One share is intrinsically worth $\frac{1}{80}$ of \$10,000.00, or \$125.00. Mr. Glenn's forty shares are therefore worth $40 \times \$125.00$, or \$5,000.00, exactly the book value of the interest in the firm of L. L. Glenn & Co., which he transferred to the corporation in full payment of his subscription to forty of the latter's shares. Thus, we find another illustration of the economic law which we pointed out when commencing the study of bookkeeping, namely, that in every transaction equal values are exchanged. By similar reasoning, the student may prove to his own satisfaction that Messrs. Doe and Roe exchanged their respective interests in the old firm for equivalent shares in the new company. Why the capital stock should have been placed at a lower figure than the book value of the assets acquired cannot be discussed here. Articles on corporate finance and corporation taxes must be consulted for further light on this interesting and somewhat difficult problem.

Though most students could do so for themselves, let us present the Balance Sheet of the corporation now:

Balance Sheet of The L. L. Glenn Company, Inc., as of October 1, 19—

Assets:		*Liabilities:*	
Cash	$1,500.00	Accounts Payable	$2,500.00
Merchandise Inventory	3,200.00	Notes Payable	2,000.00
Accounts Receivable	9,000.00	Total Liabilities	4,500.00
Furniture and Fixtures	800.00		
		Capital:	
		Capital Stock	8,000.00
		Surplus	2,000.00
	$14,500.00		$14,500.00

Solution B.—A new set of books to be employed:

(*a*) To close the old partnership books:

The first entry is for the purpose of transferring the assets to the vendees, The L. L. Glenn Company, Inc.

		October 1, 19—				
		The L. L. Glenn Company, Inc.	14,500	00		
		Cash			1,500	00
		Mdse. Inventory			3,200	00
		Accounts Receivable			9,000	00
		Furniture and Fixtures			800	00
		We have this day transferred all our assets to the L. L. Glenn Co., Inc., as per agreement.				
		Accounts Payable	2,500	00		
		Notes Payable	2,000	00		
		The L. L. Glenn Co., Inc.			4,500	00
		The L. L. Glenn Co., Inc., has this day assumed all our existing liabilities, as per agreement.				

At this point, the accounts on our books which are still open are as follows:

L. L. Glenn, Capital

			19—		
			Oct. 1	Net Capital	$5,000.00

John Doe, Capital

			19—		
			Oct. 1	Net Capital	$3,000.00

Richard Roe, Capital

			19—		
			Oct. 1	Net Capital	$2,000.00

The L. L. Glenn Company, Inc.

19—			19—		
Oct. 1		$14,500.00	Oct. 1		$4,500.00

On pages 295–296, we presented two types of entries to record the payment by The L. L. Glenn Company, Inc. of their indebtedness to the firm of L. L. Glenn & Company, as shown on the books of the latter. For the present purpose, we shall employ the second of the two solutions previously shown, as this one will help to make clearer the effect upon the capital accounts of the respective members of the firm, when the corporation pays less than the balance of its account in full settlement thereof. In showing this solution, we also redeem our promise (page 311) to present this entry when closing the books of the old firm.

October 1, 19—

The L. L. Glenn Company Stock	$8,000.00	
?	2,000.00	
The L. L. Glenn Company, Inc.		$10,000.00

Received 80 shares of stock in full payment of our business as per agreement.

Observe how the corporation canceled its book debt of $10,000.00 by paying only $8,000.00 of its stock. To what account should the difference of $2,000.00 be charged? Is it not akin to a discount allowed

a customer who cancels his indebtedness to us of $1,000.00 by giving us only $980.00? The amount *not* received is surely to be treated like a loss. It may either be charged to the Loss and Gain account and then transferred in proper proportions to the capital accounts of the firm, or better, it may be charged to the partners' accounts at once. We thus have:

	October 1, 19—				
	The L. L. Glenn Company Stock	8,000	00		
	L. L. Glenn, Capital	1,000	00		
	John Doe, Capital	600	00		
	Richard Roe, Capital	400	00		
	The L. L. Glenn Company, Inc.			10,000	00
	Received 80 shares of stock in full payment for our business transferred this day to The L. L. Glenn Co., Inc., as per agreement, the difference of $2000.00 being divided as follows:				
	L. L. Glenn, 50% or $1000.00				
	John Doe, 30% or 600.00				
	Richard Roe, 20% or 400.00				

The final entry in the old books is for the purpose of closing the accounts which are still open:

	October 1, 19—				
	L. L. Glenn, Capital	4,000	00		
	John Doe, Capital	2,400	00		
	Richard Roe, Capital	1,600	00		
	The L. L. Glenn Company Stock			8,000	00
	To close the accounts of the members of this firm by distributing the 80 shares of The L. L. Glenn Company Stock:				
	L. L. Glenn 40 shares				
	John Doe 24 shares				
	Richard Roe 16 shares				

(*b*) To open the new corporation books:

		October 1, 19— THE L. L. GLENN COMPANY, INC., has this day incorporated under the laws of the State of New York with an AUTHORIZED CAPITAL of $8,000.00 divided into 80 shares, each of a par value of $100.00		
		Subscriptions	8,000.00	
		Capital Stock		8,000.00
		The following are the subscribers to all of the Capital Stock of this Company:		
		L. L. Glenn 40 shares		
		John Doe 24 shares		
		Richard Roe 16 shares		
		Cash	1,500.00	
		Mdse. Inventory	3,200.00	
		Accounts Receivable	9,000.00	
		Furniture and Fixtures	800.00	
		Accounts Payable		2,500.00
		Notes Payable		2,000.00
		Subscriptions		8,000.00
		Surplus		2,000.00
		Accepted in full of all subscriptions to the Capital Stock of this Company, the business of L. L. Glenn & Company, as per agreement recorded in the Minute Book, page —. All of the assets of the old firm have been duly transferred to us, and we have assumed full responsibility for the liquidation of all liabilities of the firm.		

Questions

1. What is meant by the opening entry for a corporation?
2. (*a*) What do you understand by Subscriptions account?
   (*b*) How is this account opened?
   (*c*) What does its balance denote?
   (*d*) How is it finally closed?
3. How can you tell the number of shares to which individual subscribers have subscribed?
4. How can one ascertain how many shares of stock are owned by individual stockholders?
5. What is the relationship between the Capital Stock account and the Stock Ledger?
6. Differentiate between subscribed stock, issued stock and unissued stock.
7. What adjustment is made on the books of a partnership to record the fact that the business of the partnership had been sold to a corporation for stock of the corporation having a par value less than the net capital shown on the books of the partnership?
8. Tell how the corresponding adjustment would be made on the books of the corporation, that is, how the corporation would show that it has issued stock having a par value less than the net worth of the business acquired for the same stock.

Exercise 51A

Frank R. Fee, Samuel D. Seabury and Thomas Wilson organized the Frank R. Fee Company on October 1, 19—, under the laws of the State of New York, with an authorized capitalization of $100,000.00, divided into 1000 shares of $100.00 each. The subscriptions were as follows: Frank R. Fee, 500 shares at par, Samuel D. Seabury, 300 shares at par, and Thomas Wilson, 200 shares at par. The subscribers paid for their subscriptions in full on the same day. Show the opening entry for the corporation.

Exercise 51B

Show the entry for the Frank R. Fee Company on the assumption that subscriptions were as follows, instead of as given in Exercise 51*A*, above: Frank R. Fee, 100 shares, Samuel D. Seabury, 100 shares and Thomas Wilson, 100 shares, all at par. These subscriptions were paid for at once.

Exercise 51C

Show the opening entry for Exercise 51*B*, above, on the assumption that each of the subscribers paid only 50% of their subscriptions at once, in cash.

Exercise 51D

Show the Balance Sheet for the Frank R. Fee Company as of October 1, 19—, on the basis of Exercise 51*C*, above.

Exercise 51E

On November 5, 19—, Mr. George Randolph Parks, who is in business for himself, shows a net worth of $14,800.00, as disclosed by the following Balance Sheet:

Balance Sheet of George Randolph Parks as of November 5, 19—

Cash	$3,500.00	Accounts Payable	$1,050.00
Merchandise Inventory	6,100.00	George R. Parks, Capital	14,800.00
Accounts Receivable	5,600.00		
Furniture and Fixtures	650.00		
	$15,850.00		$15,850.00

Mr. Parks decides to incorporate his business under the laws of the State of New York with an authorized capital of $15,000.00. He secures George R. Parks, Jr. to subscribe to one share, Mrs. George R. Parks to subscribe to another share, and the balance he subscribes for himself.

(1) Show the opening entries on the new books of the corporation. Subscriptions are all paid, as follows: Mrs. Parks and Mr. Parks, Jr., in cash, Mr. Parks by transferring his business to the corporation.
(2) Show the closing entries on the books of the old concern.

Exercise 51F

Assuming that in Exercise 51*E*, above, George R. Parks had incorporated his business for $20,000.00 and that all the conditions of Exercise 51*E* prevailed, save that Mr. Parks subscribed for $19,800.00 worth of stock, all of which was issued to him upon the transfer by him of his business to the corporation, show:

(1) The entries on the new books of the corporation.
(2) The closing entries on the books of the old concern.
(3) The adjustment entries on the books of the old concern on the assumption that the old books were to be continued in use by the corporation.
(4) The opening Balance Sheet.

Exercise 51G

Assuming that in Exercise 51*E*, above, George R. Parks had incorporated his business for $10,000.00, that he had subscribed for $9,800.00 worth of stock, which was issued to him by the corporation as payment for the transfer of the old business to the corporation, and that all the other conditions of Exercise 51*E* prevailed, show:

(1) The entries on the new books of the corporation.
(2) The closing entries on the books of the old concern.

(3) The adjustment entries on the books of the old concern on the assumption that the old books were to be continued in use by the corporation.
(4) The opening Balance Sheet of the corporation.

Exercise 51H

The following balance sheet shows the condition of a partnership as of November 1, 19—:

Balance Sheet of Joseph H. Bristol & Co. as of November 1, 19—

Cash	$6,710.00	Accounts Payable	$8,063.00
Accounts Receivable	14,925.00	Notes Payable	5,000.00
Merchandise Inventory	7,038.00	Total Liabilities	$13,063.00
Furniture and Fixtures	1,190.00		
Automobiles	3,200.00	Jos. H. Bristol, Cap.	10,000.00
		Howard M. Bristol, Cap.	6,000.00
		Samuel W. Klees, Cap.	4,000.00
	$33,063.00		$33,063.00

On November 1, 19—, Messrs. Bristol, Bristol and Klees organize the National Trading Co., Inc., a corporation with an authorized capital of $20,000.00, divided into shares having a par value of $100.00 each, and subscribed for as follows: Jos. H. Bristol, 100 shares at par, Howard M. Bristol, 60 shares at par and Samuel W. Klees, 40 shares at par. These subscriptions are canceled by the transfer of the assets of the old firm to the corporation and by the assumption by the corporation of the outstanding liabilities of the old firm. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that the old books were to be continued in use by the corporation.
(4) Show the opening Balance Sheet.

Exercise 51I

Assume that Messrs. Bristol, Bristol and Klees organize a corporation with an authorized capital of $25,000.00, all of which was issued to the members of the old concern for their right, title and interest in the net capital of the old firm, and that all of the other conditions of Exercise 51*H*, above, remain unchanged. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the opening Balance Sheet.

Exercise 51J

Assume that Messrs. Bristol, Bristol and Klees organize a corporation with an authorized capital of $18,000.00, all of which was issued to the members of the old concern for their right, title and interest in the net capital of the old firm, and that all the other conditions of Exercise 51*H*, above, remain unchanged. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the opening Balance Sheet.

Exercise 51K

Now assume that Messrs. Bristol, Bristol and Klees (see Exercise 51*H*, above) organize the National Trading Co., Inc., with an authorized capital of $50,000.00. Subscriptions were as follows: Jos. H. Bristol, $20,000.00, Howard M. Bristol, $12,000.00 and Samuel W. Klees, $8,000.00; Frederick Zorn, $1,000.00, Frederick B. Robinson, $1,000.00. Messrs. Bristol and Klees canceled their subscriptions by immediately transferring to the corporation all their right, title and interest in the old firm. Messrs. Zorn and Robinson each paid 50% of their subscription in cash on November 1, 19—. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the opening Balance Sheet.

52. Miscellaneous Corporation Topics

Opening entries under various conditions have been discussed in Cases I to VII inclusive. Though the ordinary routine transactions are recorded without regard to the form of the ownership—whether sole proprietorship, partnership or corporation—nevertheless certain details still remain for treatment, and these will be considered in the following pages. It should be obvious that corporation bookkeeping and accounting cannot be completely treated in this text, for large books have been written on this subject without exhausting it. Accordingly, we must select from the mass of material at our disposal the most important items. Our principle of selection will be governed solely by two tests:

(*a*) What should the student become familiar with if he is not to continue his study of accounting?

(*b*) What can he grasp and understand at this stage of his bookkeeping education?

Common Capital Stock vs. Preferred Capital Stock

When we speak of the "stock," the "capital stock" or the "shares" of a corporation, we usually have in mind the certificates of ownership issued by an incorporated company. Each of these certificates indicates on its face the number of shares represented by the particular certificate in question. Thus, if a company is incorporated for $20,000.00, with shares of a par or face value of $100.00, then the authorized capital is divided into two hundred parts. A person who owns a certificate for six shares is the owner of $\frac{6}{200}$ of the authorized capital of the organization. But, as we learned previously, the issued capital stock must not necessarily be equal to the full amount authorized. In this case, if only $15,000.00 worth of stock had been issued, then the owner of six shares would own $\frac{6}{150}$ of the *net capital* of the corporation. The net capital may, of course, be more or less than the authorized capital or even of the issued capital. For while the issued capital indicates, with qualifications which we can afford to ignore in an elementary accounting discussion, the investment of the owners, the net capital is the difference between the total assets and the total liabilities of the company. It is thus seen that the net capital reflects the profits and losses of the business as well as the contribution or investment of capital.

A Stock Certificate is merely one of the stockholders' or shareholders' evidences of ownership of a part or fraction of a corporation. It usually entitles the owner, for each share owned, to one vote at meetings of stockholders, and to one part of the profits earned, which the directors, who have been elected by the stockholders to manage the corporation, decide to distribute as *dividends*. At dissolution, each share entitles the owner thereof, to one part of the net capital, which should be in cash, and which remains after converting all the assets into cash and after paying all debts. The "part" referred to is determined, should there be any doubt in the student's mind regarding it, as follows:

$$\frac{\text{1 share}}{\text{number of shares issued}}$$

so that if 150 shares had been issued, the owner of one share would be entitled to $\frac{1}{150}$th, or to two-thirds of one per cent of the amount on hand in the treasury of the corporation after liquidating or paying off all its obligations.

So far we have been dealing with the ordinary shares of capital stock. This is called Common Stock. It is the ordinary, the usual, the common shares into which the capital stock of a corporation has been divided. Differentiated from the common stock is the so-called **Preferred Stock.** Just why there should be more than one class of stock is a matter which may well be left for texts in corporate finance to discuss. Here we are simply concerned with the existence of such preferential shares, and after very briefly referring to their chief distinguishing characteristics, we shall present the bookkeeping involved.

The owners of a business are primarily interested in two vital matters concerning the organization, namely, its condition and its progress: How much is it worth; and how is it getting along? Stockholders have this interest in common with owners of unincorporated enterprises. But if stockholders have a greater interest in one than in the other of the two questions, it is in the profits rather than in the net capital, because, aside from speculators, they seek interest or profit-earning investments rather than "trades." Preferred stock increases the chances of securing regular profits by specifying that to the owners of such stock should be paid any profits (dividends) before the owners of common stock are entitled to any. Hence the need of stating the rate of dividends on preferred stock, a matter which is unnecessary in the case of common stock where the distribution of profits is governed by the amount of the net profits. We thus have "6% Preferred Stock," "7% Preferred Capital Stock," etc.

In case of a poor year's business, even the holders of preferred stock may not obtain any dividends. This is so because dividends are not guaranteed on preferred stock unless profits, sufficient in amount to pay the dividends, have been earned. Accordingly, if only enough has been made to pay 3% to preferred stockholders, despite the fact that they own 5% preferred stock, the 2% unearned would not be paid. Moreover, if no profits were earned, the entire dividend would be unpaid or "passed."

Cumulative Preferred Stock is the term applied to preferred stock which aims ultimately to secure to its holders the full amount of dividends specified. It is provided by the agreement which results in the issue of such cumulative preferred stock, that if dividends during any period are passed because of the financial inability of the corporation to meet the dividend requirement, such passed dividends shall be paid in the future before the common stockholders shall receive any dividends at all. This characteristic of cumulative stock makes it, of course, a

more favorable form of investment to the public than ordinary preferred stock.

We have pointed out the chief advantages accruing to the holders of preferred stock. Other preferences may be included, but each of them must be clearly stated to be effective. Among these additional benefits which may be included if contracted for, is that, upon dissolution of the corporation, the holders of such preferred stock shall be paid in full before common stockholders are paid their share. Other possible advantages and some disadvantages will not be discussed here.

It is still necessary to show the entries when preferred stock has been authorized. For this purpose, let us assume that a corporation is organized with an authorized capital of \$20,000.00, \$15,000.00 common stock and \$5,000.00 preferred stock, all of which has been subscribed for. As it is desirable to separate the two classes of stock, the following solutions are employed:

Subscriptions to Common Capital Stock	\$15,000.00	
Common Capital Stock		\$15,000.00
(Accepted the following subscriptions, etc.)		
Subscriptions to Preferred Capital Stock	\$5,000.00	
Preferred Capital Stock		\$5,000.00
(Accepted the following subscriptions, etc.)		

When John Jones, the subscriber to eight shares of common stock, pays for his subscription in cash, an entry is made on the receipt side of the Cash Book equivalent to the following type Journal entry:

Cash	\$800.00	
Subscriptions to Common Capital Stock		\$800.00

After all the subscriptions have been paid, the condition would be thus expressed:

Assets:		*Capital:*	
Cash	\$20,000.00	Common Stock	\$15,000.00
		Preferred Stock	5,000.00
	\$20,000.00		\$20,000.00

Note that it is quite indifferent whether the term " Common Stock " or the term " Common Capital Stock " is employed.

Let us now consider another problem. Assume that the same

corporation secured subscriptions to only $11,000.00 of common stock and to $3,500.00 of preferred stock. The following entries record the acceptance of the subscriptions:

Subscriptions to Common Stock	$11,000.00	
Unsubscribed Common Stock	4,000.00	
Common Stock		$15,000.00
Subscriptions to Preferred Stock	$3,500.00	
Unsubscribed Preferred Stock	1,500.00	
Preferred Stock		$5,000.00

The financial condition of the company, after all the subscriptions have been collected, may be thus expressed:

Assets:		*Capital:*		
Cash	$14,500.00	Common Stock Authorized	$15,000.00	
		Less unsubscribed	4,000.00	
		Common Stock Issued		$11,000.00
		Preferred Stock Authorized	$5,000.00	
		Less unsubscribed	1,500.00	
		Preferred Stock Issued		3,500.00
	$14,500.00			$14,500.00

It would be interesting to consider the problems presented when a partnership or a sole proprietorship is converted into a corporation, having both common and preferred stock, under the conditions discussed in Cases II to VII, inclusive, but this exercise must be left to the student for treatment and solution. All that we have space for is to present the Balance Sheet of the L. L. Glenn Company, Inc., as it would appear on October 1, 19—, under the following conditions:

(*a*) Authorized capital $20,000.00, $10.000.00 common and $10,000.00 preferred.
(*b*) Paid for the old firm of L. L. Glenn & Company, $15,000.00, one-half each in common and in preferred stock, respectively.
(*c*) Others subscribed to $2,000.00 of common stock and $1,200.00 of preferred stock.
(*d*) Other subscribers paid cash to cancel $800.00 subscriptions to common stock and $200.00 to preferred stock.

Under the foregoing conditions, the Balance Sheet would present the following appearance:

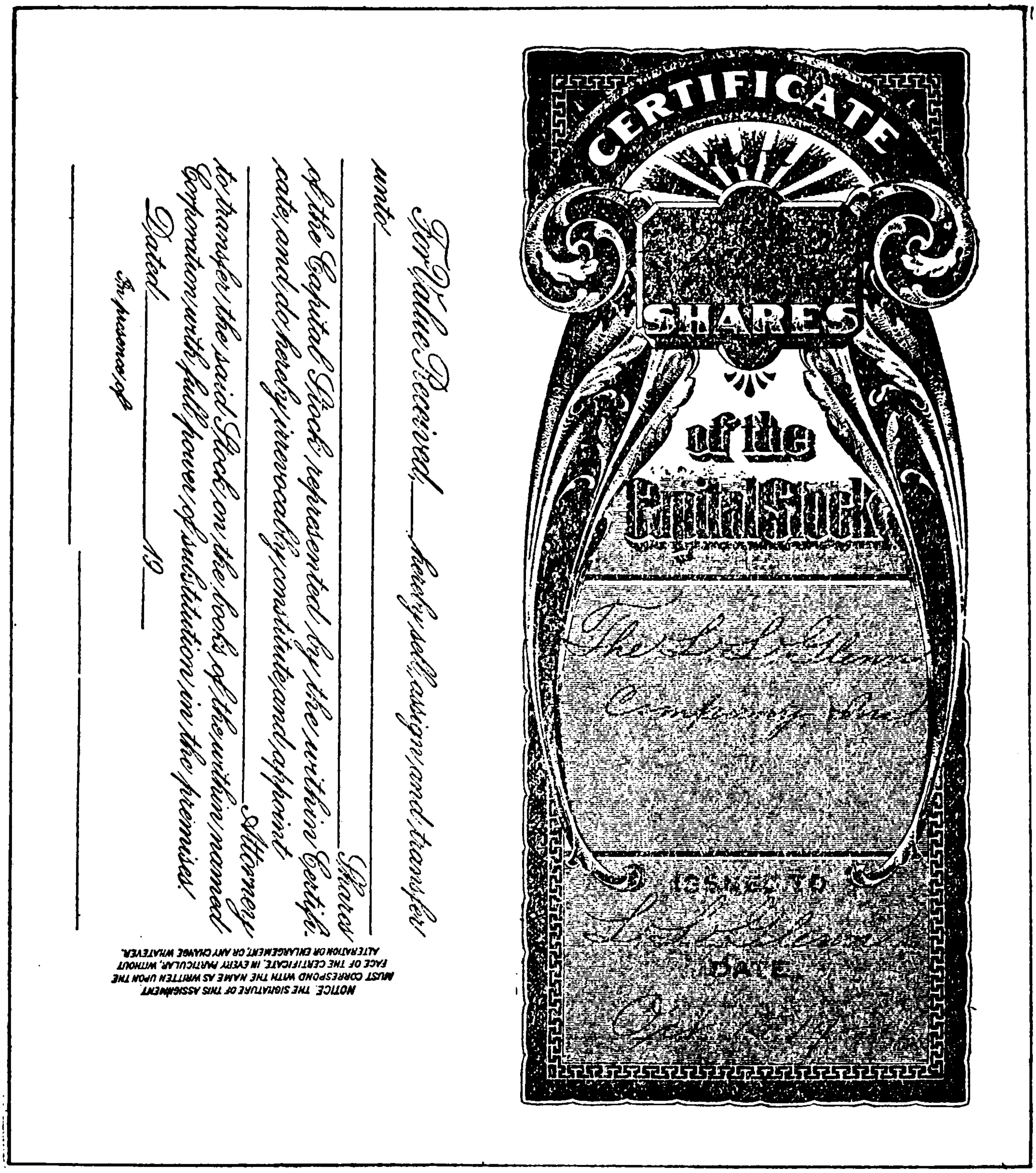
Balance Sheet of The L. L. Glenn Company, Inc., as of October 1, 19—

Assets:		*Liabilities:*		
Cash	$2,500.00	Accounts Payable		$2,500.00
Mdse. Inventory	3,200.00	Notes Payable		2,000.00
Accounts Receivable	9,000.00	Total Liabilities		$4,500.00
Subscriptions to Common Stock	1,200.00	*Capital:*		
Subscriptions to Preferred Stock	1,000.00	Authorized Common Stock	$10,000.00	
Furniture and Fixtures	800.00	Less unsubscribed	500.00	9,500.00
Good Will	5,000.00	Authorized Preferred Stock	$10,000.00	
		Less unsubscribed	1,300.00	8,700.00
	$22,700.00			$22,700.00

Though almost too difficult an exercise for the average student, it would prove a very profitable task to trace the changes in the entries under Case V (pages 301–304) which would be necessary to incorporate the assumption just made and which resulted in the foregoing Balance Sheet. It is recommended as an optional exercise.

Transfer of Stock.—We have already learned that a certificate of stock is the evidence of a part interest in a corporation. A form of such certificate was shown on page 289. The reverse side of the same certificate is presented on the following page.

If John Doe, the owner of fifteen shares, sold his holdings to Thomas Smith, he would wish his stock "transferred" to Mr. Smith. The first step would consist of his filling in the transfer form just shown, directing the corporation to make the necessary transfer. It is desirable that a record be kept of all shareholders for the purpose of notifying them of general and special meetings, sending them their dividends, and finally because the law requires that such records be kept. The formal transfer consists of canceling Mr. Doe's old certificate, and issuing a new one to Mr. Smith in place of the old one. A note of the transfer is made on the stub from which the original certificate was taken, (see space provided for this purpose on script illustration, page 289) and it is also quite customary to attach the old certificate, marked "canceled" across its face, to its corresponding stub.



In small or "close" corporations, it is hardly essential to keep a so-called Transfer Journal, but as the law (in New York) requires that a record of all transfers be kept, it is well to become familiar with a form well adapted to this requirement. Its bookkeeping purpose is to transfer the account showing Mr. Doe to be the owner of fifteen shares to the account of Mr. Smith. Basically, this is what is desired:

John Doe	$1,500.00	
Thomas Smith		$1,500.00

Transfer of 15 shares by Mr. Doe to Mr. Smith.

The form on page 329 meets the requirements of the State of New York in so far as a record of stock transfers and stock ownership is concerned.

$$\textbf{Valuation Accounts} \begin{cases} \textbf{Depreciation} \\ \textbf{Bad Debts} \end{cases}$$

Depreciation.—Everyone knows that nothing lasts forever. The machinery, the tools and the fixtures of a concern wear out. Of course this is just as true of the property of a partnership as it is of a corporation, so why introduce the discussion here? It is a comparatively difficult subject, and was postponed until this point, not because of its peculiar relationship to corporation accounting, but in order to delay presentation as long as possible.

A machine becomes less valuable with age. This factor of time does not refer alone to the fact that a machine in use suffers from wear and tear due to length and amount of service rendered, but also takes into consideration what is called "obsolescence." Obsolescence refers to the relative loss caused by the fact that new inventions make it unprofitable to continue in operation a machine still able to render service. Thus, if a printing machine installed two years ago was found to be able to produce only sixty per cent of the work produced by a machine which was just invented, and this without much greater cost, then the older machine, though practically as "good as new" might have to be discarded because the shop could not afford to compete against other shops utilizing the newer device.

The reduced value to an organization of machinery and other similar property through wear and tear and through obsolescence, must be regarded as a cost or expense in determining the net profit.

As an illustration, consider the following account:

Machinery

$5,000.00	

This machinery was bought at the beginning of the year. It is now considered to be worth 10% less than its purchase price. The reduction in value may be brought about by the following Journal entry:

December 31, 19—		
Loss & Gain	$500.00	
Machinery		$500.00
Year's depreciation of our machinery		

Instead of charging Loss & Gain a/c, most bookkeepers would debit some account like Manufacturing a/c, which would eventually be closed into the Loss & Gain a/c.

Instead of crediting Machinery a/c, it is deemed better practice to credit

STOCKHOLDER'S NAME ____________________ RESIDENCE ____________________

	Stock Transfers			Certificate Nos.			Shares			No. and Face Value of Stamps									
Date Became Owner	Date of Transfer of Shares by the Above Named	Transferred To	Transferred From	Canceled	Issued	Amount Paid Thereon	Dr. Trans-ferred	Cr. Issued	Cr. Balance	2c.	4c.	10c.	20c.	50c.	$1	$2	$10	$20	Value

some valuation or evaluation account like Machinery Depreciation a/c. The present value of the machinery would then be shown by two accounts, as follows:

Machinery	
$5,000.00	

Machinery Depreciation	
	$500.00

The second account is regarded as a valuation account, because it helps to evaluate the account to which it relates. Thus, the book value of the machinery is regarded as $5,000.00 less $500.00, or as $4,500.00. Many accountants call this valuation account "Machinery Depreciation Reserve a/c." Though most practitioners probably favor the second name, the author prefers Machinery Depreciation a/c. The student may employ either term. A discussion of the relative merits of the two terms is out of place in the present text.

Corresponding to other tangible property accounts, there may be employed similar valuation accounts. For example, Furniture a/c may have its Furniture Depreciation a/c, Real Estate, its Real Estate Depreciation a/c, and so on. In practice, however, it is not usual to employ many separate valuation accounts. In many cases, depreciation is credited to the account depreciated instead of to a separate account. For example, if furniture was bought for $850.00 and was deemed to have depreciated 10%, the net value would be shown, in most instances, as follows:

Furniture	
$850.00	$85.00

Bad Debts

Business men expect to lose some money through bad debts. As such a loss is incurred, it is charged to Bad Debts a/c. Thus, if H. L. Janes, who owed us $300.00, failed and paid us $180.00 in full settlement of our claim against him, the entry therefor would be as follows:

Cash	$180.00	
Bad Debts	120.00	
H. L. Janes		$300.00

At the end of the year, most business men know that some of their Accounts Receivable will prove uncollectible. Bad Debts a/c had been charged during the year for all definite losses resulting from the failure of customers to pay all that they owed. But, undoubtedly, not all bad accounts are known. Moreover, even if doubt exists regarding the full collection of definite accounts, it may not be known exactly how much loss will be suffered. In order to charge to Profit and Loss all bad debts which have actually been ascertained, the Bad Debts a/c is transferred to the Loss and Gain a/c. In order to include in the year's losses all other bad debts which *probably* exist, but which have not been finally and definitely ascertained, it is customary to "guess" at the probable amount involved. The past experience of the business is frequently a good index to this amount.

Say that the Bad Debts a/c shows that $810.00 had been charged to it during the course of the year. The account might appear as follows:

Bad Debts

May	3	T. A. Brown	275.00	
July	6	L. Jones & Co.	100.00	
	19	D. A. Cole	42.50	
Oct.	3	H. L. Janes	120.00	
Dec.	12	Arthur Lane	272.50	

Let us now assume that we believe that another $500.00 will be lost, due to failure to collect all of the existing Accounts Receivable. If we had prophetic vision, we could tell exactly which accounts were bad and for how much, and give effect to this knowledge by entries of the following form:

Bad Debts	$——	
Customer		$——

As we do not know which customers' accounts will prove uncollectible, we cannot credit specific customers' accounts. But we do wish to charge Bad Debts a/c:

Bad Debts	$500.00	
Unknown Accounts Receivable (?)		$500.00

Various accounts could be suggested to which to carry the credit. Accountants, however, employ an account for this purpose, and, though

a better term than the one in general use could be offered, it is necessary for us to follow the usual custom. The entry is:

Bad Debts	$500.00	
Reserve for Bad Debts		$500.00

The Bad Debts account now becomes:

Bad Debts

May	3	T. A. Brown	275.00	
July	6	L. Jones & Co.	100.00	
	19	D. A. Cole	42.50	
Oct.	3	H. L. Janes	120.00	
Dec.	12	Arthur Lane	272.50	
	31	Reserve	500.00	

The amount carried to the Loss and Gain account is, therefore, $1,310.00 instead of $810.00. Accounts Receivable account, when shown on the Balance Sheet, is carried at its evaluated amount, thus:

Cash		$5,300.00
Accounts Receivable	$25,000.00	
Less Reserve for Bad Debts	500.00	24,500.00

The reason for including Reserve for Bad Debts a/c among valuation accounts should now be clear. Though the book value of Accounts Receivable is $25,000.00, the real value to the business is judged by the goodness or collectibleness of the items included. By deducting from the book value the approximate amount of bad items, we obtain the approximate real value. The Machinery a/c, as we learned before, is treated similarly. If it cost $5,000.00, and depreciated $500.00 (see page 330), it would appear on the Balance Sheet as follows:

Machinery	$5,000.00	
Less Depreciation	500.00	$4,500.00

or sometimes as:

Machinery	$4,500.00

Bad Debts vs. Reserve for Bad Debts

To make sure that the reader thoroughly understands the difference between bad debts and reserve for bad debts, a comparison and an illustration are in order. The Bad Debts a/c is transferred at the

end of the year to the Profit and Loss a/c. It represents the amount actually lost on bad debts, plus the approximate amount which it is expected still to lose on past sales. The Reserve for Bad Debts a/c is a true valuation account; it shows the approximately decreased worth or value of the Accounts Receivable a/c, and it should always be deducted from the latter account when shown on a Balance Sheet.

An illustration will make the difference between the two accounts still clearer. Should Frank D. Blainn, who owes us $175.00, become bankrupt, and pay us only $110.00, the business obviously enough has suffered a loss of $65.00. The first impulse is to record the transaction as follows:

Cash	$110.00	
Bad Debts	65.00	
Frank D. Blainn (Accounts Receivable)		$175.00

The entry is correct only if the loss was suffered as the result of a sale to Blainn *during the present year*. If, however, Blainn's indebtedness to us was included in last year's Accounts Receivable, then the loss of $65.00 was charged to last year's Profit and Loss a/c, when the Reserve for Bad Debts a/c was set up. Had we known at that time that Blainn's a/c was to prove bad, instead of crediting Reserve for Bad Debts a/c, we would have credited his account (Accounts Receivable) instead. Now that we do know which account is bad, the entry should be:

Cash	$110.00	
Reserve for Bad Debts	65.00	
Frank D. Blainn (Accounts Receivable)		$175.00

Further discussion of this interesting topic must be reserved for more advanced study.

Reserves.—We have already learned that the net profit of a corporation is frequently called its surplus. Dividends, as we also learned, are declared out of surplus. Indeed, stockholders have come to regard the surplus of a corporation as, in a measure, belonging to them. That this is not quite true is evident from the fact that stockholders do not share in the surplus until the directors of the corporation apportion it by declaring dividends. Now, it is not advisable to distribute all of the profits earned; some should be retained or saved "for a rainy day."

In partnerships, the divison of profits shown by appropriate Journal entries, so that the Loss and Gain account is closed and the partners credited for their respective shares. This division does not result in

paying out money, because partners do not, as a general rule, draw out their profits as soon as ascertained and apportioned. In a corporation, on the other hand, as soon as the profits (or surplus) are apportioned, it is more likely to be paid out. Accordingly, directors refrain from apportioning among the stockholders more of the surplus than they are ready to disburse in cash. To reduce the surplus available for dividends, some part of it is *reserved.* This is accomplished by means of a Journal entry of the following type:

Surplus	$——	
Reserve		$——

It should now be apparent that reserves and surplus and net profits are quite synonymous terms. Net profits refer to the credit balance of the Profit and Loss a/c; surplus to the same balance transferred from the P. & L. a/c to the Surplus a/c; reserves to that portion of the Surplus a/c which is transferred to the Reserve a/c. Other distinctions and differences are discussed in accounting texts.

Reserve Funds.—Bookkeepers and business men often fail to distinguish between *reserve funds* and *reserves.* We have already learned that reserves deal with profits not apportioned and distributed, and shown in a Reserve account. Reserve funds are entirely different as we shall see at once.

If a concern commences business by investing $50,000.00 in cash, the following Balance Sheet would reflect its condition:

Cash	$50,000.00	Capital	$50,000.00

If, now, the managers of the business decided to set aside $10,000.00 of this cash in a special fund to be used for emergencies or for a designated purpose, a simple entry would accomplish the purpose:

Reserve Fund Cash	$10,000.00	
Cash		$10,000.00

The following Balance Sheet indicates the existing condition:

Cash	$40,000.00	Capital	$50,000.00
Reserve Fund Cash	10,000.00		
	$50,000.00		$50,000.00

We are now prepared to understand that a reserve fund is an asset, whereas a reserve is a profit. A reserve can only exist so long as profits exist which have not been distributed. A reserve fund shown by an appropriate Reserve Fund account can be established at any time, irrespective of profits, provided that sufficient assets exist.

One reason for the failure to differentiate clearly between reserve and reserve funds is indicated in the following condensed Balance Sheet:

Cash	$29,500.00	Notes and Accounts Payable	$55,500.00
Reserve Fund Cash	10,000.00	Capital	60,000.00
Other Assets	90,000.00	Reserve	10,000.00
		Surplus	4,000.00
	$129,500.00		$129,500.00

This Balance Sheet shows that undistributed profits amounting to $14,000.00 exist (Reserve $10,000.00 plus Surplus $4,000.00). The Reserve a/c was created by charging Surplus a/c and crediting Reserve a/c. It just happens that there was also set aside in a fund an amount of cash exactly corresponding to the amount of the reserve. This correspondence may or may not have been an unintentional coincidence. It probably was intentional because many business men believe it *advisable,* though not necessary, to keep intact a fund exactly equal to the undivided profits shown in the Reserve a/c. It is probably because of the frequent coincidence of amounts in the fund and in the reserve that so many people confuse the two accounts. The reader should not be guilty of a similar mistake, despite the fact that much which is found in advanced texts had to be omitted from the present book.

Dividends.—As we have previously learned, the net profit of a partnership is divided between the members of the firm, equally or in other agreed upon proportions. This division of profits does not usually affect the assets of the firm, as the partners ordinarily permit their profits to increase their net capital instead of drawing out money equivalent to the profits. But in corporations, as was pointed out, stockholders frequently wish most, if not all, of the net profits of the company to be distributed as dividends. Accordingly, directors employ the device of "reserving" some of the net profits earned, as we just learned, so as to reduce the amount "available for dividends."

The Surplus account shows how much may be paid out as dividends, but stockholders ordinarily have no claim on these profits until the direc-

tors take formal steps to distribute such earnings. Such affirmative action on the part of directors is known as "declaring a dividend." If the surplus of The Kent Trading Company, Inc., was $16,000.00 and the capital stock, all issued, was $100,000.00, a dividend of 16% could be declared. This means 16% on the issued stock and *not* 16% on the surplus.

When the dividend is declared, the following Journal entry should be made:

Date

Surplus	$16,000.00	
Dividends Payable		$16,000.00

The Directors have this day declared a dividend of 16% on the total capital stock of the Company (Minute Book, page —).

This entry extinguishes the Surplus account and sets up a liability to the stockholders.

If it is desired to earmark this dividend so as to show that it is, say, the fifteenth in the history of the company, the effect would be thus obtained:

Surplus	$16,000.00	
Dividends Payable No. 15		$16,000.00

The liability to stockholders is removed by actually paying them the dividends to which they are entitled. For example, Frank Browne, the holder of eight shares would receive 8×$16.00, $128.00, or 16% of $800.00, $128.00, as his share of the dividend declared. The entry for this payment to him would be made in the Cash Book, disbursement side, as follows:

Date		Dividends Payable	F. Browne, 8 shares	128	00

or,

Date		Dividends Payable No. 15	F. Browne, 8 shares	128	00

These Cash Book entries correspond to the Journal entries with which we have been illustrating all original entries regardless of what

books they would actually appear in, in practice. The Journal entry for the first Cash Book illustration is as follows:

	Date	
Dividends Payable	$128.00	
Cash		$128.00

Paid F. Browne dividends on 8 shares of stock.

Questions

1. Differentiate between common stock and preferred stock.
2. What is meant by cumulative preferred stock?
3. How may the owner of some of the corporation's stock transfer title to it?
4. Define and illustrate valuation accounts.
5. How may the amount of depreciation on a machine be determined?
6. Distinguish between bad debts and reserve for bad debts.
7. What is the difference between surplus and reserve?
8. How are reserve funds established?
9. Distinguish between dividends and profits.
10. Tell how to ascertain the rate of dividends.

Exercise 52A

The Machinery account on the books of a corporation shows expenditures amounting to $27,500.00. The Machinery Depreciation account is credited for a total of $8,260.00. Show the entry giving effect to a resolution of the Board of Directors that 10% of the original cost of the machinery be written off as representing the year's depreciation.

Exercise 52B

Show the entry required for Exercise 52*A*, above, if 10% was to be taken, not on the original cost of the machinery, but on its depreciated value.

Exercise 52C

The Furniture and Fixtures account of a certain firm has a debit balance of $765.00. Upon an appraisal at the end of the year, the value of the furniture and fixtures is determined to be $530.00. Show the proper adjustment entry required in the premises.

Exercise 52D

Franklin L. Simmons, who owes us $310.00, is declared a bankrupt. He settles by paying us 40c. on the dollar. Show the resulting entry or entries.

Exercise 52E

At the end of a certain year, the Board of Directors of a company decide to write off 3% from Accounts Receivable, shown on the books to amount to \$137,263.14, as a reserve for bad debts. Show the proper entry therefor.

Exercise 52F

Assume that on February 3 of the following year, Franklin Bros., who have owed the company referred to in Exercise 52*E*, above, \$640.00 since September 18 of the previous year, fail and settle with the company by returning to them merchandise invoiced at \$150.00 and cash \$320.00. Show the entry on the books of the company.

Exercise 52G

Show the entry on the books of the company for the situation discussed in Exercise 52*F*, above, if the company's account with Franklin Bros. originated *after* the closing of the company's books for the preceding year.

Exercise 52H

Show the entry on the books of Franklin Bros. for the payment referred to in Exercise 52*F*, above.

Exercise 52I

The net profit of a corporation for a certain year, as shown in its Profit and Loss account, amounts to \$16,840.00. The Board of Directors declares a dividend of 6% on the outstanding capital stock, which amounts to \$100,000.00. The Board of Directors also decides to create a reserve of \$5,000.00. Show the Journal entry or entries necessary to give effect to the action of the Board.

Exercise 52J

A corporation with a large balance of cash on hand decides to create a reserve fund by depositing \$10,000.00 with the Union Trust Company. Show the required entry.

53. Dissolution of Corporations

There remains for final discussion the entries necessary to close the books of a corporation at the time of its dissolution. A corporation may dissolve voluntarily, or it may do so as the result of bankruptcy, or finally, as the result of a court order for cause. We shall give our attention to voluntary dissolution only, and shall consider three problems in the present connection.

(*a*) The F. T. R. Long Company, Inc., decides to dissolve organiza-

tion, and for this purpose meets all the legal requirements involved. At this time, its condition is reflected by the following:

Balance Sheet of the F. T. R. Long Company, Inc., December 28, 19—

Assets:		*Liabilities:*	
Cash	$3,300.00	Accounts Payable	$8,000.00
Accounts Receivable	10,400.00	Notes Payable	3,000.00
Notes Receivable	5,000.00	Total Liabilities	$11,000.00
Mdse. Inventory	6,000.00		
Furniture and Fixtures	500.00	*Capital:*	
		Capital Stock	10,000.00
		Surplus	4,200.00
	$25,200.00		$25,200.00

To dissolve business implies the liquidating or paying off of all liabilities and the realizing on, or converting of all the assets into cash. Frequently this process of realization and liquidation is intrusted to a committee, but for our purposes we may dispense with the discussion of the procedure incident to the winding up of affairs and devote our attention to the bookkeeping involved.

As assets are sold, entries of the following type are in order:

Cash	$——	
Furniture and Fixtures		$——

When Accounts Receivable are collected, the ordinary entry is made:

Cash	$——	
Thomas Jones		$——

or,

Cash	$——	
Discount on Sales	——	
Thomas Jones		$——

Enough has been pointed out to show that the entries incident to realization and liquidation are not necessarily different from those which occur during the ordinary routine of business life, though a wrong impression would be left did we fail to remark that in advanced works certain technical accounting modifications are introduced to record the process of winding up a concern.

Assume that all the debts have been paid, and all the assets converted into cash, and that the incidental expenses and losses charged to Profit

and Loss account had been transferred to Surplus account, so that the condition of the company was now as follows:

Balance Sheet of F. T. R. Long Company, Inc., January 24, 19—

Assets:		*Capital:*	
Cash	$12,800.00	Capital Stock	$10,000.00
		Surplus	2,800.00
	$12,800.00		$12,800.00

An inspection of the foregoing exhibit shows that the realization and liquidation losses amounted to $1,400.00, clearly indicated by the reduction of the surplus from $4,200.00 on December 28, to $2,800.00 on January 24. We should also note that the holder of each one-hundred-dollar share of stock is entitled to $128.00, that is, to a return of his capital ($100.00) and to one-hundredth ($\frac{1}{100}$) of the surplus ($\frac{1}{100}$ of $2,800.00, $28.00). The surplus is usually distributed as dividends, but it is possible for the directors to vote to pay out the capital and the surplus simultaneously. The entry when Mr. Long was paid is as follows:

Disbursement side of the Cash Book:

Date		Capital Stock	Redemption of F. T. R. Long's	3000	00
		Surplus	holding: 30 shares @ $128.00	840	00

This entry corresponds to the following one in the Journal.

	Date	
Capital Stock	$3,000.00	
Surplus	840.00	
Cash		$3,840.00

Redemption and cancellation of
F. T. R. Long's holdings:

30 shares of capital stock at par	$3,000.00
30/100 of the Surplus of $2,800.00	840.00
	$3,840.00

After all of the stockholders have been paid, all of the accounts, and hence the books, have been closed.

(*b*) If on January 24, it was found that the capital had been impaired, due to the fact that the expenses of and losses incident to winding up

exceeded the surplus of $4,200.00, which existed on the preceding December 28, another problem is before us for solution. Let this be the balance sheet now:

Assets:		*Capital:*	
Cash	9,400.00	Capital Stock	$10,000.00
Deficit	600.00		
	$10,000.00		$10,000.00

This deficit of $600.00 shows that since December 28, $4,800.00 was charged to the Surplus account, changing a credit balance into a debit balance. We must decide how to divide the $9,400.00 on hand among shareholders who own a total of 100 shares of stock. The solution is as simple as when a surplus existed. Each share of stock is entitled to $\frac{1}{100}$ of the *net capital*, or to $\frac{1}{100}$ of $9,400.00, $94.00. Mr. Long should thus receive 30 times $94.00, or $2,820.00 for his holdings of thirty shares. The Cash Book entries for settlement with him correspond to the following Journal entry:

Date

Capital Stock	$3,000.00	
Cash		$2,820.00
Surplus (or Deficit a/c)		180.00

Redemption and cancellation
of F. T. R. Long's holdings:
30 shares at $94.00

The student should observe that the foregoing entry reduced the Capital Stock account for the par value of thirty shares and the deficit by $180.00, Mr. Long's loss on his holdings.

In practice, the entry for the $2,820.00 would appear in the Cash Book, of course. Let us see what is required:

Disbursement side of the Cash Book:

Date		Capital Stock	Mr. Long's 30 shares @ $94.00	2,820	00		

This entry credits Cash for $2,820.00, which is correct, but charges the Capital Stock account for only $2,820.00 instead of $3,000.00. Some other entry is necessary in order to charge Capital Stock account

for $180.00, and to credit Surplus (or Deficit) account for the same amount. The Journal is the medium available:

	Date	
Capital Stock	$180.00	
Surplus (or Deficit)		$180.00

Loss suffered by F. T. R. Long on 30 shares of stock redeemed by the Company at $94.00.

(*c*) As a final problem involving the dissolution of a corporation, let us consider the affairs of a company whose condition is shown by the following:

Balance Sheet of The Imperial Trading Company, Inc., as at January 15, 19—

Assets:		*Liabilities:*		
Cash	$1,200.00	Accounts Payable		$16,500.00
Accounts Receivable	26,800.00	Notes Payable		10,000.00
Mdse. Inventory	18,300.00	Total Liabilities		$26,500.00
Fixtures	2,200.00			
		Capital and Surplus:		
		Capital Stock authorized	$25,000.00	
		Less unsubscribed	5,000.00	
		Issued Stock		20,000.00
		Surplus		2,000.00
	$48,500.00			$48,500.00

Assume that arrangements were completed to transfer the business of the Imperial Trading Company, Inc., to The United Trading Company, Inc., upon the payment by the latter company of some of its preferred capital stock to the former company. In order to make this discussion of maximum value to the student, we shall consider three cases, and show the effect of each upon the books of both concerns:

I. The vendees (buyers) pay to the vendors (sellers) $22,000.00 of preferred stock.

II. The vendees pay $25,000.00 of preferred stock.

III. The vendees pay only $15,000.00 of preferred stock.

The condensed Balance Sheet of the vendees is as follows:

Balance Sheet of The United Trading Company, Inc., January 15, 19—

Assets:		*Liabilities:*		
Cash	$50,000.00	Accounts and Notes Payable		$260,000.00
Other Assets	800,000.00	*Capital and Surplus:*		
		Common Stock		500,000.00
		Preferred Stock authorized	$200,000.00	
		Less unsubscribed	140,000.00	60,000.00
		Surplus		30,000.00
	$850,000.00			$850,000.00

Observe that all of the common stock has been issued, but only $60,000.00 of the entire amount of authorized preferred stock. The United Trading Company, Inc., has agreed to issue some of its unsubscribed preferred capital stock for the business of the Imperial Trading Company, Inc.

Case I.—The Imperial Trading Company, Inc., sells its business to The United Trading Company, Inc., for $22,000.00 of the latter's preferred stock. The entries on the books, both of the vendor and of the vendee, are shown on pages 344 and 345.

The books of the Imperial Trading Co., Inc., are now closed. In practice, separate entries would be made for the exchange of stock by each stockholder, but the form of the summary entry shown is applicable to individual transactions. The surrendered stock is now the property of The United Trading Co., Inc., whose ownership of the business of the Imperial Company is evidenced by such stock or its equivalent. The United Trading Company could make the following simple entries for the transaction:

Date		
Subscriptions to Preferred Stock	$22,000.00	
Unsubscribed Preferred Stock		$22,000.00
Date		
Imperial Trading Co. Stock	$22,000.00	
Subscriptions to Preferred Stock		$22,000.00

(1) Entries for the Imperial Trading Company, Inc.:

		Date				
		The United Trading Co., Inc.	48,500	00		
		Cash			1,200	00
		Accounts Receivable			26,800	00
		Mdse. Inventory			18,300	00
		Fixtures			2,200	00
		To transfer all our assets to The United Trading Co., Inc., as per agreement, Minute Book, pp. —.				
		Date				
		Accounts Payable	16,500	00		
		Notes Payable	10,000	00		
		The United Trading Co., Inc.			26,500	00
		Assumption by The United Trading Co., Inc. of our existing liabilities, as per agreement, Minute Book, pp. —.				
		Date				
		United Trading Co. Preferred Stock	22,000	00		
		The United Trading Co., Inc.			22,000	00
		Recd. 220 shares of The United Trading Company's stock in full payment of our rights and interest in the Imperial Trading Company, as per agreement, Minute Book, pp. —.				
		Date				
		Capital Stock	20,000	00		
		Surplus	2,000	00		
		United Trading Co. Preferred Stock			22,000	00
		Cancellation of the capital stock of this Company by distributing $1\frac{1}{10}$ shares of the preferred stock of The United Trading Co. for each share of our capital stock surrendered.				

We have assumed, however, that the Imperial Trading Company, Inc., has been really dissolved, and so, instead of a change of ownership, in virtue of the fact that the stock was owned by other holders, we must give effect to a physical transfer of the assets and liabilities.

(2) Entries for The United Trading Company, Inc.:

	Date				
	Subscriptions to Preferred Stock	22,000	00		
	Unsubscribed Preferred Stock			22,000	00
	Subscribers at par: (Names of stockholders of the Imperial Trading Co., Inc., showing how many shares each had subscribed for in the ratio of $1\frac{1}{10}$ new shares for each old share to be transferred.)				
	Date				
	Cash	1,200	00		
	Accounts Receivable	26,800	00		
	Mdse. Inventory	18,300	00		
	Fixtures	2,200	00		
	Accounts Payable			16,500	00
	Notes Payable			10,000	00
	Subscriptions to Preferred Stock			22,000	00
	Accepted the business of the Imperial Trading Co., Inc., in full payment for subscriptions to 220 shares of preferred stock, as per agreement, Minute Book, pp. —.				

The entries on the books of The United Trading Co., Inc., are now complete. After posting them, the condensed Balance Sheet previously shown becomes:

Cash	$51,200.00	Accounts and Notes Payable		$286,500.00
Other Assets	847,300.00	*Capital and Surplus:*		
		Common Stock		500,000.00
		Preferred Stock authorized	$200,000.00	
		Less unsubscribed	118,000.00	82,000.00
		Surplus		30,000.00
	$898,500.00			$898,500.00

Case II.—In this problem we are to show what entries result in the books of both concerns, under the assumption of the same conditions as in the first case, but with the purchase price paid by The United Trading Co., Inc., $25,000.00, instead of $22,000.00.

(1) Entries for the Imperial Trading Co., Inc.:

		Dr.	Cr.
	Good Will	3,000 00	
	Surplus		3,000 00
	To set up excess valuation placed upon this business by The United Trading Co., Inc., as per agreement, Minute Book, pp. —.		
	The United Trading Co., Inc.	51,500 00	
	Cash		1,200 00
	Accounts Receivable		26,800 00
	Mdse. Inventory		18,300 00
	Fixtures		2,200 00
	Good Will		3 000 00
	Transfer of all our assets to The United Trading Co., Inc., as per agreement, Minute Book, pp. —.		
	Date		
	Accounts Payable	16,500 00	
	Notes Payable	10,000 00	
	The United Trading Co., Inc.		26,500 00
	Assumption by The United Trading Co., Inc., of our existing liabilities, as per agreement, Minute Book, pp. —.		
	Date		
	United Trading Co. Preferred Stock	25,000 00	
	The United Trading Co., Inc.		25,000 00
	Recd. 250 shares of The United Trading Company's stock in full payment of our rights and interest in the Imperial Trading Company, as per agreement, Minute Book, pp. —.		
	Date		
	Capital Stock	20,000 00	
	Surplus	5,000 00	
	United Trading Company Preferred Stock		25,000 00
	Cancellation of the capital stock of this Company, by distributing $1\frac{1}{4}$ shares of the preferred stock of The United Trading Company for each share of our capital stock surrendered.		

(2) Entries for The United Trading Co., Inc.:

	Subscriptions to Preferred Stock	25,000.00	
	Unsubscribed Preferred Stock		25,000.00
	Subscriptions at par: (Names of stockholders of the Imperial Trading Co., Inc., showing how many shares each had subscribed for in the ratio of $1\frac{1}{4}$ new shares for each old share to be transferred.)		
	Date		
	Cash	1,200.00	
	Accounts Receivable	26,800.00	
	Mdse. Inventory	18,300.00	
	Fixtures	2,200.00	
	Good Will	3,000.00	
	Accounts Payable		16,500.00
	Notes Payable		10,000.00
	Subscriptions to Preferred Stock		25,000.00
	Accepted the business of the Imperial Trading Co., Inc., in full payment for subscription to 250 shares of preferred stock, as per agreement, Minute Book pp. —.		

The condensed Balance Sheet of The United Trading Company, Inc., is now as follows:

Cash	$51,200.00	Accounts and notes Payable		$286,500.00
Other Assets	850,300.00	*Capital and Surplus:*		
		Common Stock		500,000.00
		Preferred Capital Stock		
		Authorized	$200,000.00	
		Less unsubscribed	115,000.00	85,000.00
		Surplus		30,000.00
	$901,500.00			$901,500.00

Case III.—As a final problem let us see what entries result on the assumption that The United Trading Company, Inc., paid only

$15,000.00 in preferred stock for the business of the Imperial Trading Co., Inc.

(1) Entries for the Imperial Trading Co., Inc.:

Date					
The United Trading Co., Inc.	48,500	00		
Cash			1,200	00
Accounts Receivable			26,800	00
Mdse. Inventory			18,300	00
Fixtures			2,200	00
Transfer all our assets to The United Trading Co., Inc., as per agreement, Minute Book, pp. —.				
Date				
Accounts Payable	16,500	00		
Notes Payable	10,000	00		
The United Trading Co., Inc.			26,500	00
Assumption by The United Trading Co., Inc., of our existing liabilities, as per agreement, Minute Book, pp. —.				
Date				
United Trading Co. Preferred Stock	15,000	00		
Surplus	7,000	00		
The United Trading Co., Inc.			22,000	00
Recd. 150 shares of The United Trading Company's stock in full payment of our rights and interest in the Imperial Trading Company, as per agreement, Minute Book, pp. —.				
Date				
Capital Stock	20,000	00		
United Trading Co. Preferred Stock			15,000	00
Surplus			5,000	00
Cancellation of the capital stock of this Company, by distributing $\frac{3}{4}$ of a share of the preferred stock of The United Trading Co. for each share of our capital stock surrendered.				

The student will readily see that the loss of seven thousand dollars suffered by the Imperial Trading Company, in consequence of the sale of the business for $15,000.00, when its book value was $22,000.00, resulted in canceling the existing Surplus account of $2,000.00, and creating a deficit (debit balance in the Surplus account) of $5,000.00. Because of this capital impairment, the value of the Imperial Company's stock was below par in terms of The United Trading Company's preferred stock. Each share of the Imperial Company's stock was then worth $\frac{1}{200}$ of $15,000.00 (United Trading Co. Preferred Stock) or $75.00.

(2) Entries for The United Trading Company, Inc.:

	Subscriptions to Preferred Stock	15,000	00		
	Unsubscribed Preferred Stock			15,000	00
	Subscribers at par: (Names of stockholders of the Imperial Trading Co., Inc., showing how many shares each had subscribed for in the ratio of three-quarters of a share for each old share to be transferred.)				
	Date				
	Cash	1,200	00		
	Accounts Receivable	26,800	00		
	Mdse. Inventory	18,300	00		
	Fixtures	2,200	00		
	Accounts Payable			16,500	00
	Notes Payable			10,000	00
	Subscriptions to Preferred Stock			15,000	00
	Surplus			7,000	00
	Accepted the business of the Imperial Trading Co., Inc., in full payment for subscription to 150 shares of preferred stock as per agreement, Minute Book, pp. —.				

Observe that a profit (surplus) of $7,000.00 was earned by The United Trading Company, because it received the business of the Imperial Trading Co., worth $22,000.00, for only $15,000.00.

The condensed Balance Sheet of the United Trading Company, Inc., is now as follows:

Cash	$51,200.00	Accounts and Notes Payable		$286,500.00
Other Assets	847,300.00	*Capital and Surplus:*		
		Common Stock		500,000.00
		Preferred Stock		
		Authorized	$200,000.00	
		Less unsubscribed	125,000.00	75,000.00
		Surplus		37,000.00
	$898,500.00			$898,500.00

Questions

1. What is meant by the dissolution of a corporation?
2. Why is a corporation dissolved?
3. How may a corporation be dissolved in your state?
4. What is meant by " realization and liquidation losses "?
5. Who is responsib for the debts of a corporation?
6. State how you would decide to how much money each share of stock was entitled at dissolution.
7. What entries are required to record the dissolution of a corporation?
8. What happens to the surplus of a corporation at the time of dissolution?
9. Differentiate between voluntary and involuntary dissolution.
10. What rights, if any, have preferred stockholders which common stockholders have not, when corporations are dissolved?

Exercise 53A

The Silas Marner Company decides to dissolve. At this time, its Balance Sheet is as follows:

Balance Sheet of The Silas Marner Company as of October 1, 19—

Assets:		*Liabilities:*	
Cash	$4,280.00	Accounts Payable	$1,208.00
Notes Receivable	1,000.00	*Capital:*	
Accounts Receivable	5,300.00	Capital Stock	10,000.00
Mdse. Inventory	1,425.00	Surplus	1,097.00
Furniture and Fixtures	300.00		
	$12,305.00		$12,305.00

The capital stock consists of 100 shares of common stock, having a par value of $100.00 each. Assuming that all the assets were converted into cash, without any loss whatsoever, and that the liabilities were paid in full, and that no further expenses were incurred, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

Exercise 53B

If the expenses and losses incidental to the dissolution of the corporation discussed in Exercise 53*A*, above, amounted to $480.00, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

Exercise 53C

If the expenses and losses incidental to the dissolution of the corporation discussed in Exercise 53*A*, above, amounted to $1,297.00, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

54. SUMMARY

The Principles of Bookkeeping Universal.—This chapter has served to illustrate that just as partnership bookkeeping did not differ radically from the bookkeeping of sole proprietorships, so also the same principles which obtained in the bookkeeping of individual proprietors and partnerships were found applicable to the problems which confronted the bookkeeper for corporations. The new items which were introduced concerned themselves at least as much with the legal, financial and business relationships which were involved in corporate enterprises, as with the bookkeeping thereof. The bookkeeping differences were illustrated by means of sections dealing with the opening entry for corporations, routine entries and dissolutions.

Certificate of Incorporation.—It was learned that a corporation is born only as a result of legal sanction. The principal step in securing the state's permission to conduct business as a corporation is amply illustrated in the certificate of incorporation or charter of the company. Though the bookkeeper, as such, is not expected to be able to organize corporations, it is nevertheless desirable, both for cultural and utilitarian reasons, that he familiarize himself with the Articles of Incorporation of any enterprise with which he is connected, because, just as do the Articles of Copartnership in a partnership, the Certificate of Incorpora-

tion throws light upon the duties, obligations and rights of the owners and directors of a corporate enterprise.

The certificate shown on pages 281–284, is sufficiently broad to give some definite idea of the features of such legal papers. The steps in the formation of a corporation, outlined on pages 280–281, though based upon the procedure in New York State, are sufficiently general to help one to understand the specific details involved in organizing a business corporation in any state of the Union.

Opening Entries.—The opening entries were somewhat different from those to which the student had previously become accustomed, due to the requirements of the law as well as to the technical forms which had come into use. These opening entries taught the student how to record transactions involved in establishing a corporation, both as an original enterprise and as a result of conversion from some other form of organization. In dealing with corporations which resulted wholly or in part from previous establishments, three distinct situations were discussed, namely, corporate organizations with capitals equal to, more, and less than the capitals of the original organizations so converted. Such new terms as Subscriptions, Unsubscribed Stock, Capital Stock and Authorized Capital were introduced and suitably explained.

Miscellaneous Topics.—Under the heading of miscellaneous corporation topics, considerable new matter was presented. Common capital stock was differentiated from preferred capital stock; cumulative preferred stock was introduced and discussed; the importance of valuation accounts and the methods of determining depreciation and bad debts were discussed; reserves, and reserve funds were explained and contrasted with each other, and finally, the subject of dividends was presented.

Dissolution.—The manner of dissolving a corporation was treated in the last division of the present chapter. This section was made the means of illustrating the reasons for dissolving a corporation, as well as the bookkeeping entries necessitated by such dissolution.

Questions

1. If you had access to the General Ledger of a business organization, tell exactly how you could determine whether it was a sole proprietorship, a partnership or a corporation.
2. What legal steps are necessary in your state to incorporate a trading company?
3. (*a*) How can you ascertain the authorized capital of a corporation to whose books you have access?

(b) What is the relationship between such authorized capital and the net worth of the business?

4. How may a partnership, the net worth of which is $5,000.00, incorporate for $8,000.00 and issue all the capital stock to the members of the old firm? Explain fully.

5. The statement is sometimes made that the Capital Stock account in the General Ledger is a controlling account of the Stock Ledger. Is the statement ever true? Is it always true? Discuss fully.

6. In a certain case, a person who subscribed to ten shares of the stock of a corporation at par paid $60.00 on account of each share and failed to pay the balance of $40.00. According to the subscription agreement, the corporation had the right to cancel his subscription and to forfeit the amount which he had paid thereon. This action was taken. As an original exercise, try to explain what book entries would be necessitated.

7. What is meant by the preamble to the opening entries for a corporation? To what does it correspond in partnership bookkeeping?

8. Why are no entries required in the general books of a corporation when a stockholder sells his holdings to another stockholder?

9. In what respects, if in any, does the good will of a corporation differ from the good will of a partnership?

10. If a partnership disposes of its business to a corporation at a profit, the profit is shown and divided on the books of the corporation, but *no consequent loss* is indicated on the books of the buying corporation. Explain fully.

11. If a partnership disposes of its business to a corporation at a loss, the loss is recorded on the books of the partnership, and the *consequent gain is shown* on the books of the corporation. Explain fully.

12. Clearly differentiate between issued and unissued stock.

13. State what features may differentiate preferred stock from common stock.

14. What makes cumulative preferred stock usually a more desirable form of investment than preferred stock?

15. How are subscriptions to preferred stock differentiated from subscriptions to ordinary capital stock?

16. What is meant by treasury stock?

17. In general, is it an easier or more difficult task to continue the books of a partnership which has been converted into a corporation, or to open a new set of books? Give reasons for your answer.

18. Explain how it is that some stocks which have a par value of $100.00, are quoted on the Stock Exchange at $175.00 per share, while others are quoted at $33.00 per share.

19. What do you understand by valuation accounts? Illustrate.

20. Do you favor deducting the amount of depreciation on machinery from the machinery account, or setting up the depreciation in a separate machinery and depreciation account? Give reasons for your answer.

21. After setting up a reserve for bad debts, what specific question must a bookkeeper decide when an account is found to be worthless?

22. How are reserves created and why?

23. How are reserve funds created and why?

24. Is there any necessity for the amount of the reserve fund to equal the amount of the corresponding reserve account? Explain.

25. (*a*) To what proportion of the net profits of a firm are the individual members thereof entitled, and what part of such net profits may they individually demand?

(*b*) To what proportion of the net profits of a corporation are the individual stockholders thereof entitled, and what part of such net profits may they individually demand?

Exercise 54A

On October 21, 19—, Mr. David Starr, who is in business for himself, shows a net worth of $9,800.00, as disclosed by the following Balance Sheet:

Balance Sheet of David Starr as of October 21, 19—

Cash	$2,500.00	Accounts Payable	$4,225.00
Mdse. Inventory	7,250.00	Notes Payable	1,000.00
Accounts Receivable	4,800.00	David Starr, Cap.	9,800.00
Furniture and Fixtures	475.00		
	$15,025.00		$15,025.00

Mr. Starr decides to incorporate his business under the laws of the State of New York, with an authorized capital of $10,000.00. He secures Alfred David to subscribe to one share, George Howland to another share, and for the balance he himself subscribes.

(1) Show the opening entries on the new books of the corporation. Subscriptions are all paid, as follows: Mr. David and Mr. Howland in cash, Mr. Starr by transferring his business to the corporation.

(2) Show the closing entries in the books of the old concern.

(3) Show the initial Balance Sheet of the new company.

Exercise 54B

Assuming that in Exercise 54*A*, above, David Starr had incorporated his business for $15,000.00, and that all the conditions of Exercise 54*A* prevailed save that Mr. Starr subscribed for $14,800.00 worth of stock, all of which

was issued to him upon the transfer by him of his business to the corporation, show:

(1) The entries in the new books of the corporation.
(2) The closing entries in the books of the old concern.
(3) The adjustment entries in the books of the old concern on the assumption that the old books were to be continued in use by the corporation.
(4) The Balance Sheet of the company as of October 21, 19—.

Exercise 54C

Assuming that in Exercise 54*A*, above, David Starr had incorporated his business for $8,000.00, that he had subscribed for $7,800.00 worth of stock, which was issued to him by the corporation as payment for the transfer of the old business to the corporation, and that all the other conditions of Exercise 54*A* prevailed, show:

(1) The entries in the new books of the corporation.
(2) The closing entries in the books of the old concern.
(3) The adjustment entries in the books of the old concern, on the assumption that the old books were to be continued in use by the corporation.
(4) The Balance Sheet of the corporation as of October 21, 19—.

Exercise 54D

The following Balance Sheet shows the condition of a partnership as of November 15, 19—:

Balance Sheet of Dennis & Wilson, as of November 15, 19—

Cash	$4,860.00	Accounts Payable	$10,245.00
Accounts Receivable	10,550.00	Notes Payable	5,000.00
Merchandise Inventory	9,775.00	Total Liabilities	$15,245.00
Furniture and Fixtures	5,060.00	John Dennis, Cap.	10,000.00
		Howard Wilson, Cap.	3,000.00
		Earle Johnston, Cap.	2,000.00
	$30,245.00		$30,245.00

On November 15, 19—, Messrs. Dennis, Wilson and Johnston organize the Superior Trading Co., Inc., a corporation with an authorized capital of $15,000.00, divided into shares having a par value of $100.00 each, and subscribed for as follows: John Dennis, 100 shares at par, Howard Wilson, 30 shares at par, and Earle Johnston, 20 shares at par. These subscriptions are canceled

by the transfer of the assets of the old firm to the corporation and by the assumption by the corporation of the outstanding liabilities of the old firm. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that the old books were to be continued in use by the corporation.
(4) Show the initial Balance Sheet of the corporation.

Exercise 54E

Assume that Messrs. Dennis, Wilson and Johnston organize a corporation with an authorized capital of $20,000.00, all of which was issued to the members of the old concern for their right, title and interest in the net capital of the old firm, and that the other conditions of Exercise 54*D*, above, remain unchanged. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the Balance Sheet of the corporation as of November 15, 19—.

Exercise 54F

Assume that Messrs. Dennis, Wilson and Johnston organize a corporation with an authorized capital of $12,000.00, all of which was issued to the members of the old concern for their right, title and interest in the net capital of the old firm, and that all the other conditions of Exercise 54*D*, above, remain unchanged. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the initial Balance Sheet of the corporation.

Exercise 54G

Now assume that Messrs. Dennis, Wilson and Johnston (see Exercise 54*D*, above) organize the Superior Trading Co., Inc., with an authorized capital of $35,000.00. Subscriptions were as follows: John Dennis, $15,000.00, Howard Wilson, $6,000.00, Earle Johnston, $4,000.00, Frank Rich, $2,000.00 and Arthur Wallace, $1,000.00. Messrs. Dennis, Wilson and Johnston canceled their subscriptions by immediately transferring to the corporation all their right,

title and interest in the old firm. Messrs. Rich and Wallace each paid 50% of their subscription in cash on November 15, 19—. Show the resulting entries:

(1) On the books of the corporation.
(2) On the old books of the firm.
(3) On the old books of the firm, on the assumption that they were to be continued as the corporation books.
(4) Show the Balance Sheet of the corporation as of November 15, 19—.

Exercise 54H

The Cooper Trading Company decides to dissolve. At this time, its Balance Sheet is as follows:

Balance Sheet of The Cooper Trading Company as of November 1, 19—

Assets:		*Liabilities:*	
Cash	$5,640.00	Accounts Payable	$1,245.00
Notes Receivable	1,500.00	*Capital:*	
Accounts Receivable	7,850.00	Capital Stock	15,000.00
Mdse. Inventory	2,400.00	Surplus	1,595.00
Furniture and Fixtures	450.00		
	$17,840.00		$17,840.00

The capital stock consists of 150 shares of common stock, having a par value of $100.00 each. Assuming that all the assets were converted into cash, without any loss whatsoever, and the liabilities were paid in full, and that no further expenses were incurred, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

Exercise 54I

If the expenses and losses incidental to the dissolution of the corporation discussed in Exercise 54*H*, above, amounted to $530.00, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

Exercise 54J

If the expenses and losses incidental to the dissolution of the corporation discussed in Exercise 54*H*, above, amounted to $1,945.00, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

Exercise 54K

The Trenton Machine Works, Inc., decides to dissolve. At this time, its Balance Sheet is as follows:

Balance Sheet of The Trenton Machine Works as of November 1, 19—

Assets:		*Liabilities:*	
Cash	$8,790.00	Accounts Payable	$3,115.00
Notes Receivable	2,500.00	*Capital:*	
Accounts Receivable	5,775.00	Capital Stock	20,000.00
Merchandise Inventory	4,050.00		
Furniture and Fixtures	1,500.00		
Deficit	500.00		
	$23,115.00		$23,115.00

The capital stock consists of 200 shares of common stock having a par value of $100.00 each. Assuming that all the assets were converted into cash, and the liabilities paid in full, and that the expenses and losses incidental to the dissolution of the corporation amounted to $1,000.00, show:

(1) The amount due to each stockholder per share of stock.
(2) The closing entries.

PART VI

BUSINESS PRACTICE AND CUSTOMS

The purpose of this part of the book is to acquaint the student with the material which constitutes the basis of the bookkeeper's work.

Thus far in the progress of our work we have made entries for transactions which appeared in a condensed list concisely stating the essentials of each exchange. In actual business, instead of being supplied with such a summary of transactions, the basis of the entries is found in orders for goods received by mail, over the telephone or in other ways; in the receipt of checks and notes; in the disbursing of cash, checks and notes. The object of the present chapter is to present to the reader unacquainted with actual business details some of the salient features which occur as necessary preliminaries to book entries.

I. Selling Goods.—Whenever we have credited Merchandise account or Merchandise Sales account, it was because we found among our list of transactions a statement that goods were sold to a certain person. Such statements, in actual business, are preceded by other circumstances. For example, an *order* for goods would be received first. This order might be left with us by a customer, in which case it might be a verbal or written order. In modern business, such orders are frequently received by telephone. The mail may bring an order for goods, or it may be obtained by an agent or salesman who is sent to solicit orders. A

Order Form

New York, *July 1, 19—.*

R. T. BROWN & CO.

Ordered by *F. Beaver & Son*

24 Third Avenue, City

Via ______ When required *At once*

SALESMAN *D. R. F.* O. K. *F. Beaver*

Terms ______

	3	doz. No. 84 Spades	6.00	18	
	½	doz. No. 59 Axes	15.00	7	50
	2	doz. No. 104 Y. Locks	10.50	21	
				46	50

written order is frequently in the form of a letter requesting that certain specified goods be sent. Where orders are taken by agents, a form is frequently employed, standardizing the information contained therein. As an illustration of the form described, see the preceding page.

Comments.—(*a*) Note the place for the date of the order.

(*b*) Observe that not only the name but also the address of the customer is indicated.

(*c*) The shipping directions for which provision is made are omitted where the customer is a regular one and the method of delivery is known, and also usually for local customers to whom the goods are delivered by local express companies, or by our own delivery system.

(*d*) Terms are frequently omitted, because there is a tendency to make terms of payment standard in each line. Thus, in some cases, all goods sold must be paid for within ten days, or within a few days after the first of the month following that in which sales are made. Where all customers are treated alike, such terms are either printed on the order blank, or omitted entirely. Where special terms are made they should, of course, be mentioned.

(*e*) Notice that the goods are listed on the order blank just as on the invoice, which will be described in the following section.

(*f*) The agent uses a number or his initials, or sometimes his full name, in order to identify himself.

(*g*) The line for the signature is to be filled in by the customer, or by a representative of the customer. This detail is frequently omitted, though many modern houses insist upon the obtaining of the signature by the agent in all cases. This is due to the fact that the Statute of Frauds[1] provides, in one of its sections, that for a contract of sale to be binding *one* of three requirements must be fulfilled, namely:

(1) That a part of the goods be accepted by the customer;

(2) that a part payment be made by the customer;

(3) that the customer sign a contract of sale which is to bind him.

When orders are received, they are entered either in an order book, or the order slips are filed, constituting the equivalent of an order book. This necessitates that all telephone and verbal orders be reduced to writing. Provision is made for the filling of orders, either in the order of arrival or, more frequently, according to the time when deliveries are requested by customers. No formal book entry is necessary for the receipt of an order; it is merely necessary that the order be handled in such a way that delivery will be properly and promptly made, and that

[1] In New York the Statute applies to sales of goods amounting to fifty dollars or over.

the data contained in the order be available in case of dispute. The book entry is not made until after the goods have been shipped.

II. **Invoicing.**—After the order has been received, it is "filled." By "filling" is meant the executing of the order, that is, the sending or the shipping of the goods sold. Before filling orders from strangers, and also sometimes before approving of orders larger than usual from old customers, it is desirable to obtain information regarding the credit standing of such prospective buyers. For this purpose, credit agencies have been established. The principal companies furnishing such information are known as Dun's and Bradstreet's. William A. Prendergast's book, "Credit and Its Uses" (D. Appleton & Co.), pages 191–195, furnishes an excellent introduction to this very interesting and important topic.

At the time when goods are so shipped, an *invoice* or *bill* is made out. This invoice, which will be found illustrated below, is for the purpose of facilitating our charging or debiting the customer for the goods sold him, and also to give the customer an opportunity to check up the goods received by him with those for which he is charged by us. Sometimes the invoice is inclosed in the case containing the goods, especially to local customers, otherwise it is sent by mail. The "terms" of sale, that is, the manner in which payment for the goods must be made, is almost invariably indicated upon the invoice. The following are the terms most frequently employed:

1. *Cash:* Meaning that the goods must be paid for as soon as received, and without deducting any discount. In actual practice, this usually means in from two to five days after the receipt of goods by the customer, as it is understood that the customer should be given an opportunity to inspect the goods. Often, too, it is interpreted to be the equivalent of "on account."

2. *On account:* Which indicates that payment must be made according to the terms prevalent in the particular industry involved. In many cases, "on account" signifies that payment is to be made as a result of a monthly statement (shown in the next division) which summarizes the total sales during the previous month, less any payments made thereon. Accordingly, in this case, payment would be due within a few days after the first of the following month.

3. *Special terms:* Among the more common of the special terms are 2/10, n/30; 2/10, 1/30, n/60; 2/10, n/60. The first of these three special terms indicates that if payment is made within ten days from the date of the invoice, 2% may be deducted from the amount of the bill. The customer has the option of deducting 2% as indicated, or else pay-

ing the total amount of the invoice *after* ten days from its date and *within* thirty days from the date of sale. The author has observed a tendency in certain lines to interpret 2/10, n/30, as meaning 2% off if paid within ten days, or the full amount of the bill within forty days. The interpretation in such cases is that "n/30" means thirty days *after* the elapse of the ten-day period. Many merchants condemn this practice, and the present reference is solely for the purpose of bringing to the attention of the student a practice which is of some frequency.

The second set of the given terms means that 2% may be deducted if the invoice is paid within ten days; 1% if paid after ten days and before thirty days have elapsed, or the full amount of the invoice if it is paid after thirty days and within sixty days.

The last one of the terms shown requires no special comment.

Sample invoices are herewith illustrated:

New York, Nov. 12, 19—

Messrs. J. D. Whitlock & Co.
Salem, Mass.

Bought of SMITH DRY GOODS CO.

Terms 2/10—net/30 — Salesman—A.R.
Shipped via—Am. X

10	pcs. 40 yds. each, No. 125 Cloth	50c.	200	00		
Job	100 yds. assorted Cheviot	90c.	90	00		
5	pcs., 40 yds. each, Satin	95c.	190	00	480	00

Invoice O.K. F. S. — New York, Nov. 12, 19—.
Salesman—8 — as
Dec. 1, 19—.*

Sold to A. B. Harrington & Sons,
123 Water St., City.

Bought of WILLIS PLUMBING & SUPPLY CO.,

Terms 3/10–1/60–n/90 — Shipped—Monohan X

6	Sets No. 10 Outfit	@ $24.25 per set	145	50		
1	lot pipes		10	00	155	50

To NEW YORK TELEPHONE COMPANY, Dr.
PAYABLE AT 115 WEST 38TH STREET, NEW YORK CITY

July 1, 19—

LOCAL MESSAGES			
Credit May 1......498	Local Service Charge, Month Ending July 31.............	10	25
Sent in May.......415	Additional Local Messages, Month Ending May 31.. @ ..¢	—	—
Credit June 1...... 83	Toll Service, per Statement Herewith, May 21 to June 20 Inc..		67
SUBSCRIBER'S RECORD		10	92
Paid by			
Check No.............	Bill Rendered		
Bank.................			
Date.................			

2793 James Hastings

Gree Room 1300
45 West 34th St.

Phone Stuyvesant 2528 All Bills Payable Monthly

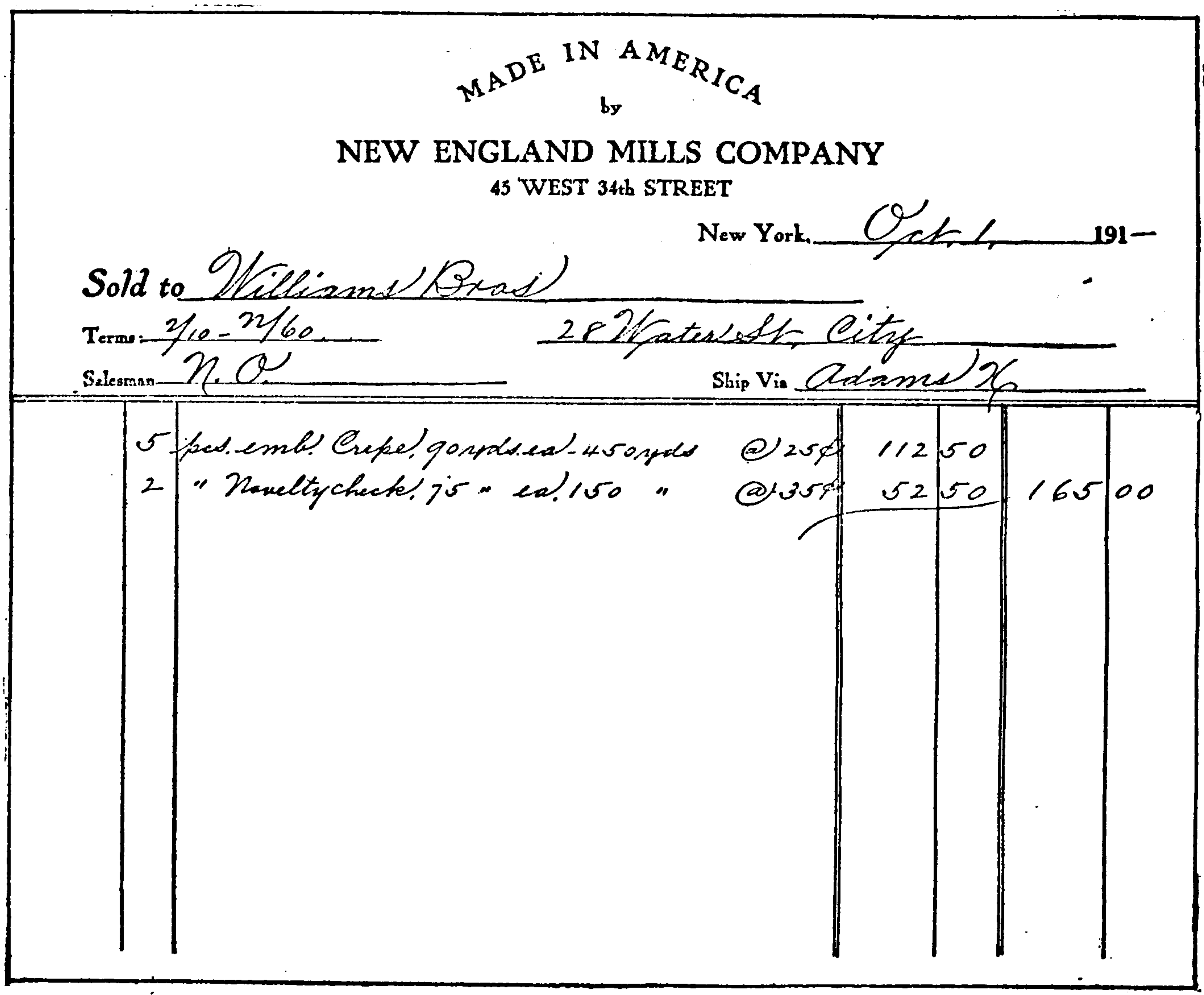
M Monolith Collection Agency

TO EXCLUSIVE TOWEL SERVICE CO., Dr.
65 Fourth Avenue, New York

To Service rendered for month	Mar.		75
	Apr.		75
	May		75
Received Payment			
Exclusive Towel Service Co.		2	25
Make all Complaints Direct to Office	Per........................		

4. *Dating:* Many concerns order goods months before they are actually needed. The manufacturers who supply the demands of such customers are then compelled to begin manufacturing long before the goods will be required. Inasmuch as the storage facilities of manufacturers are frequently inadequate to handle all the manufactured goods from the period when the first of the finished product is ready for delivery until the date for which the goods are ordered, it has become

quite customary, in many lines, to ship goods to customers weeks and even months before they are needed by customers.[2] As it would not be fair to charge these goods as of the date when delivery is made, the practice of " dating " has sprung into being. By dating is meant the giving of an extra allowance of time, so as to push forward the period from which the discount term is to be reckoned in order to avoid handicapping customers to whom early deliveries are made. Theoretically, the dating would be accomplished by making the invoice read, say, September 1


MADE IN AMERICA
by
NEW ENGLAND MILLS COMPANY
45 WEST 34th STREET

New York, Oct. 1, 191–

Sold to Williams Bros.

Terms: 2/10-N/60 28 Water St., City

Salesman N. O. Ship Via Adams Ex.

5	pcs. emb. Crepe, 90 yds. ea. – 450 yds.	@ 25¢	112 50	
2	" Novelty check, 75 " ea. 150 "	@ 35¢	52 50	165 00

instead of July 12. In actual practice, the matter has been standardized so that we speak of sixty-day datings, ninety-day datings, etc. A sixty-day dating means that the invoice becomes subject to the ordinary terms after the elapse of sixty days from the date appearing thereon. This fact is often indicated by marking " 60X " after the ordinary credit terms.

5. *Sales entries:* At the same time that the invoices described in the previous section are made out, a duplicate is also made. The duplicating (sometimes triplicating) is accomplished on the type-

[2] The real origin of " dating " is to be found in the practices of an earlier business generation. At first it was a favor to a few buyers, but now the practice is quite universal.

writer, "billing board," or on rotary billing devices. The duplicate invoice becomes the original entry for the sale. It is charged to the account of the customer and is credited to the Merchandise Sales account. What has just been described is the more usual practice, but some concerns still enter each invoice in a Sales Book, from which,

James Elliott

TELEPHONE
2806-2807 GREELEY

Premises 910-11

In Account with

The Monolith Realty Co.

45 WEST 34TH STREET

NEW YORK

Rent from May 1 to May 31 191–

EXTRAS·

	100	00

Paid May 2, 191–

THE MONOLITH REALTY CO.

Per T.B.

instead of from the invoice, posting is made. But as some readers have not yet taken up the study of sales books, the student will regard the posting from the invoice, or from a book in which a copy of the invoice is retained or made, as equivalent to the Journal entry which results from each sale, namely, a debit or charge to the customer and the credit to Merchandise Sales. The point to be emphasized in this connection is

that modern bookkeeping entries for a sale originate with the invoice, instead of with a brief description in a series of transactions, such as the student has been accustomed to employ in the first part of this book.

6. *Receipting:* Until quite recently it was customary to obtain receipts for the payment of all invoices. Such a receipt consisted of an acknowledgment of payment on the invoice itself, sometimes in the form of a separate receipt. It is no longer usual to insist upon such receipts, and as a matter of fact many concerns prefer not to receive them. This is due to the fact that the check, which is the usual means of settling an account, is considered a sufficient receipt in itself, because the indorsement on the check shows that the money passed through the hands of the proper persons. Moreover, the obtaining of receipts has become quite cumbersome, due to the fact that when payment is made the invoice must be returned to the seller for his receipt, and only too frequently the invoices might go astray during the process. However, when such receipts are required, acknowledgment is written or stamped on the face of the invoice and shows the date of payment, the name of the concern receiving payment and the representative who actually received the payment. The invoice on page 364, when so receipted, would appear as follows:

Invoice O. K.—F. S. New York, Nov. 12, 19—.
Salesman—8 as
Dec. 1, 19—.

Sold to A. B. Harrington & Son
123 Water St., City

Bought of WILLIS PLUMBING & SUPPLY CO.,

Terms: 3/10–1/60–n/90 Shipped Monohan X

	6	sets No. 10 Outfit	@ $24.25	145	50		
	1	lot pipes		10		155	50
			Less dis.	3%		4	67
						150	83

Paid Dec. 11, 19—
Willis P. & S. Co.
D. J. K.

Obviously, the receipting of the invoice follows the payment of the same. The entry for the receipt of the payment would be recorded as a charge to cash and a credit to the customer. If a discount were allowed, Cash and Discount on Sales would be debited while the customer would be credited. Instead of having this information set down in the list of transactions, the need for the entry would arise upon the receipt of cash or a check, and the entry would follow from such receipt, rather than from a statement to the effect that money had been received.

III. Monthly Statements.—It is quite customary to send to customers at the beginning of each month a statement of the Ledger account as it appears upon our books (creditor's or seller's books) on the last day of the preceding month. Such a statement is sometimes sent as the equivalent of a request for the settlement of the account; more frequently, however, to afford the customer an opportunity to verify the account and correct any errors that may exist. The monthly statement which would be sent to Mr. T. Brown (page 20), on the assumption that the last transaction with him was on March 8, would appear as follows:

STATEMENT

Folio 185 New York, April 1, 19—

Mr. T. Brown

Newark, N. J.

In account with BENSON & MELLINGER

810 Broadway

Mar.	1	To Mdse.	80	00		
	8	To Mdse.	100	00	180	00

Comments.—*a.* Note that the printed portion of the monthly statement corresponds quite closely to the invoice.

b. There is no need of describing the items sold, as the function of the monthly statement is to recapitulate the individual sales.

c. Note that the statement shows that T. Brown is indebted to us to the sum of $180.00.

On March 10, T. Brown paid us $125.00 on account. In the preceding paragraph, we assumed that no such payment had been made. The monthly statement which would be a true exhibit of Mr. Brown's Ledger account with us is as follows:

STATEMENT

Folio 185 New York, April 1, 19—

Mr. T. Brown

Newark, N. J.

In account with BENSON & MELLINGER

810 Broadway

Mar.	1	To Mdse.	80	00		
	8	To Mdse.	100	00	180	00
		Cr.				
	10	By Cash on account			125	00
					55	00

Comments.—*a.* Note that the first portion of the invoice is identical with that previously shown.

b. Observe carefully how the deductions resulting from payments are shown.

c. Is not the amount of Mr. Brown's indebtedness to us clearly indicated?

A third form of monthly statement will now be discussed. It involves all the elements thus far treated of, but includes another. The additional item concerns itself with a balance due from the previous month, and shown in a previous statement. For the purpose of illustration, let us consider Mr. Brown's statement as of May 1. The April 1st statement showed that Mr. Brown owed us $55.00. If during April he made four additional purchases from us, and paid us two items, one a note and one a check, and also returned to us some merchandise for which we gave him credit, the statement which we would send him would be as shown on the next page.

Comments.—*a.* Note that the balance shown by the April 1st statement appears on the first line.

b. The sales during April are listed immediately following.

c. The total of the first item, plus subsequent sales, is carried out into the second money column, as shown.

d. The credits are separately itemized, so as to be self-explanatory.

e. The balance of $125.00 is clearly established.

STATEMENT

Folio 185 New York, May 1, 19—

Mr. T. Brown

Newark, N. J.

In account with BENSON & MELLINGER

810 Broadway

April	1	Balance as per Statement rendered	55	00		
	6	To Mdse.	100	00		
	9	" Mdse.	26	50		
	15	" Mdse.	75	00		
	23	" Mdse.	150	00	406	50
		Cr.				
	4	By Cash	150	00		
	10	" Mdse. returned	6	50		
	25	" Note (30 days)	125	00	281	50
					125	00

It was stated previously that the object of a monthly statement was twofold, either a request for payment or a comparison of Ledger accounts between the creditor and the debtor. Sometimes creditors stamp at the bottom of their statement a notation to the effect that the purpose of the statement is to afford the debtor an opportunity to compare his Ledger account with his creditor's, and is not a " dun." Business men employ the term " dunning " to express the fact that efforts are being made to effect a collection. Other methods of dunning or collecting consist of writing special letters requesting payment, sending out personal collectors, and as a final resort more drastic measures are employed, which cannot be discussed in this connection.

IV. Receipts.—We have already discussed receipting in connection with sales. We have still to consider the subject of receipts in general.

a. Receipts on account.—When we receive cash, a check or a note from a debtor, in part payment of his account, it is sometimes required

that we issue a receipt for such payment. The following forms answer the purpose:

$200.00 New York, July 8, 19—.
Received from John Jones
Two Hundred no/00 ~~~~~~~~~~~~~~~~ Dollars
on acct.
H. Smith.

New York, July 8, 19—.
Received from John Jones
his 30-day note for Two Hundred no/00 ~~~~~~~~~~ Dollars
on acct.
H. Smith.

b. A similar receipt is often required when the payment cancels the entire debt. The following form requires no further comment:

$200.00 New York, July 8, 19—.
Received from John Smith
Two Hundred no/100 ~~~~~~~~~~~~~~~~ Dollars
in full of acct.
H. Smith & Co.

c. Some lines of business employ special receipts because of the nature of their business. Several forms are submitted for inspection:

NATIONAL BUSINESS INSTITUTE
45 West 34th Street
New York, Mar. 18, 19—.
Received of Lawrence Tracy
Fifty no/100 ~~~~~~~~~~~~~~~~ Dollars
For: on a/c of Course A.
No. 1485
NATIONAL BUSINESS INSTITUTE
per D. J. K.

New York, Apr. 2, 19—.
Received from Ess-Arc Co.
One and 50/100 Dollars
For one insertion on Apr. 3, 19— six-line ad.
$1.50 N. Y. Times.
By C. J. C.

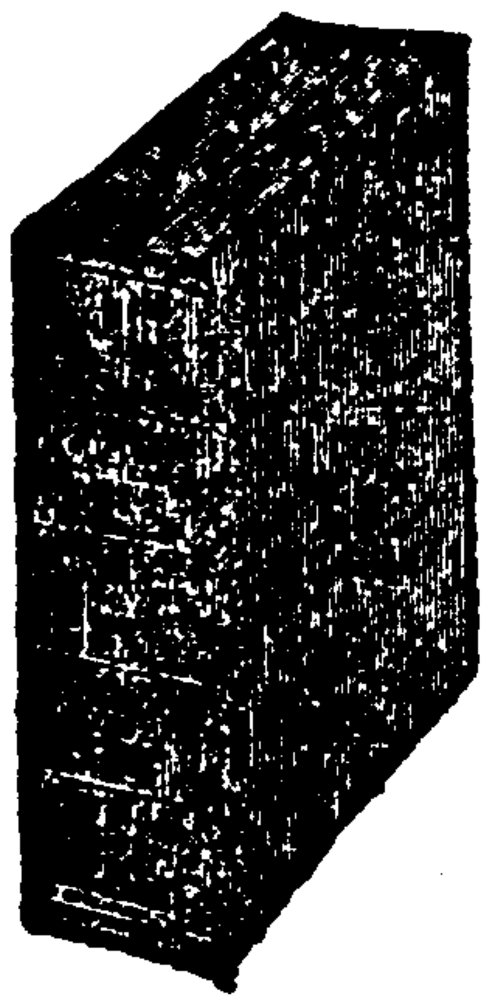
$100.00 New York, July 5, 19—
Received from The Rambler Company
One Hundred no/100 Dollars
for rent of premises Nos. 803–4 from July 1 to July 30, 1916.
THE WRIGHT REALTY COMPANY
per B. S.

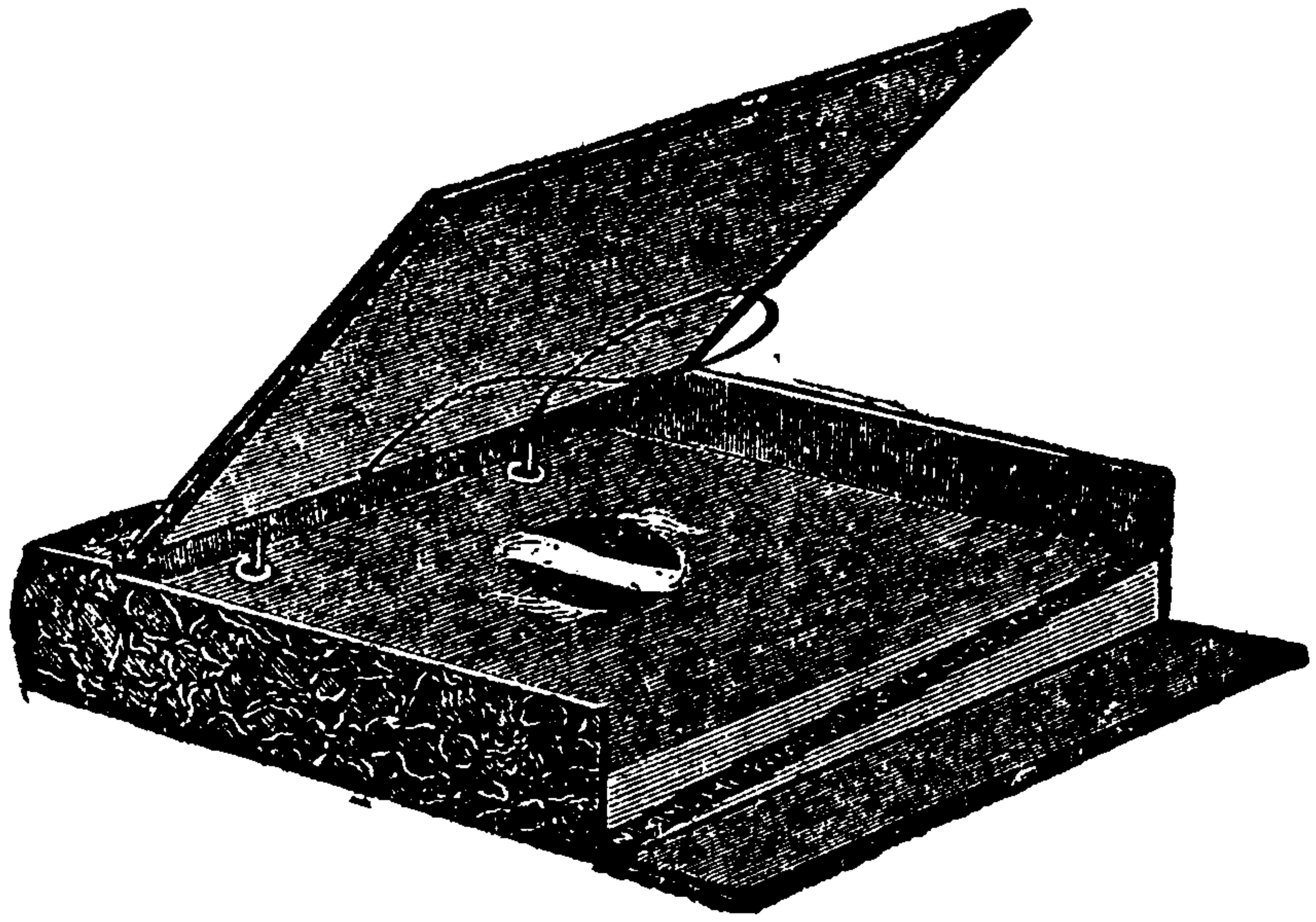
V. Filing.—The subject of filing plays an important part in the internal affairs of every modern business house. The letters which are received, as well as copies of those which are sent, orders, invoices, statements and many other papers, must be placed so as to be readily available for reference whenever the need arises. Various devices are on the market for the purpose of filing the many papers which a modern office needs to keep.

The simplest form of file is the so-called spindle file. This consists of an upright wire or iron-pointed shaft secured upon a firm base, upon which papers are kept. This is a very crude affair, and whenever used in the modern office, it is for the temporary keeping of papers and memoranda. The clip file is a similar device for temporary purposes. It consists essentially of a clip which will retain papers and this clip is either detachea, or it is attached to a board or hook.

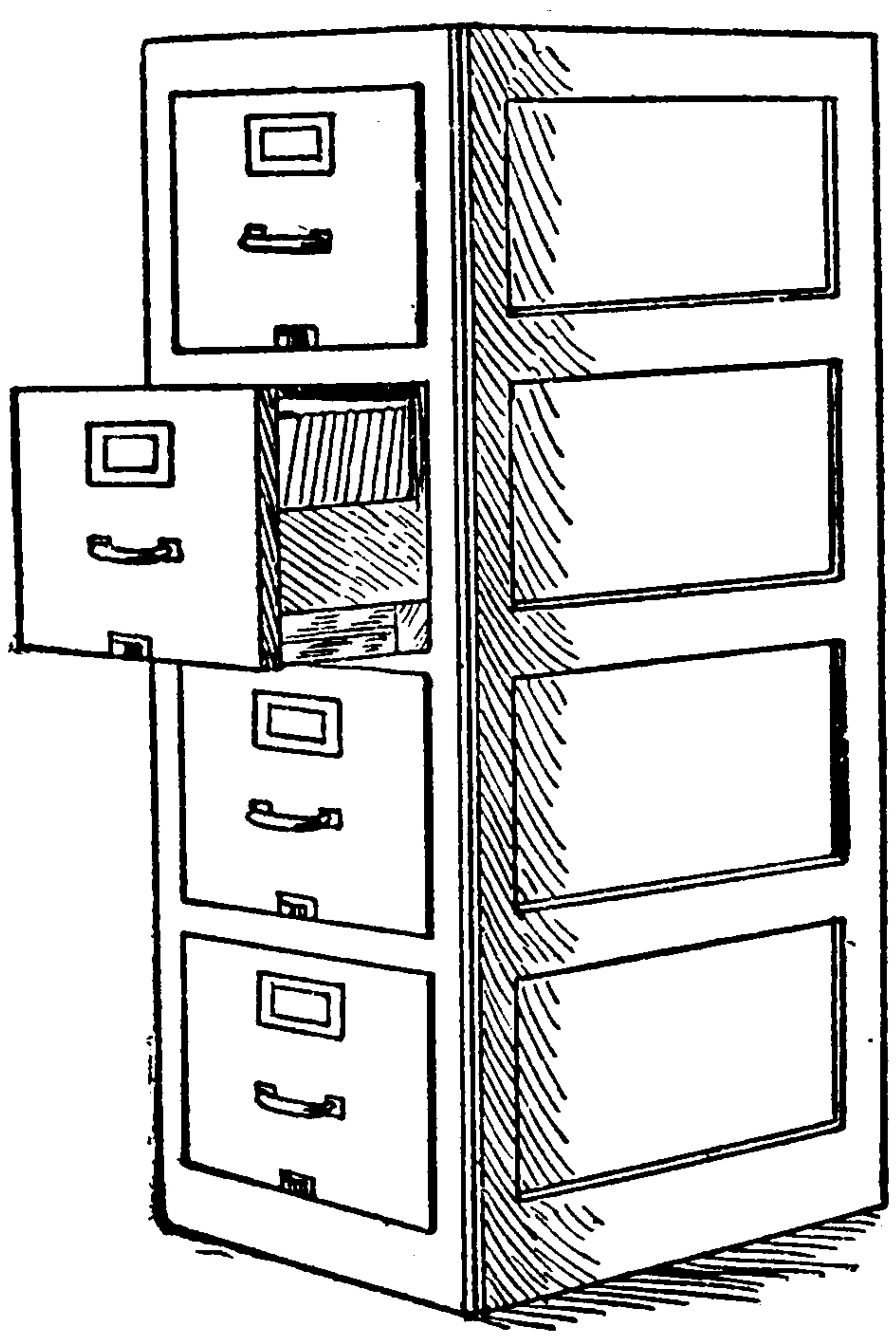
Both of the foregoing files play little part in office economy. Box files are much more frequently found. This is a case of cardboard or wood, containing a series of paper partitions labeled in various ways. The most common arrangement is a labeling device consisting of the letters of the alphabet. Letters, invoices, orders and other papers relating to concerns whose names commence with the letter "A" are placed or filed in the compartment or division labeled "A"; similarly for the other divisions. Some papers which have to be referred to on various days of the month are arranged in the file, which, instead of being labeled alphabetically, is labeled chronologically, that is, it contains a series of dates. Papers which have to be referred to on certain dates

are placed in their appropriate division. Illustration of both kinds of files will be found in the accompanying cuts.

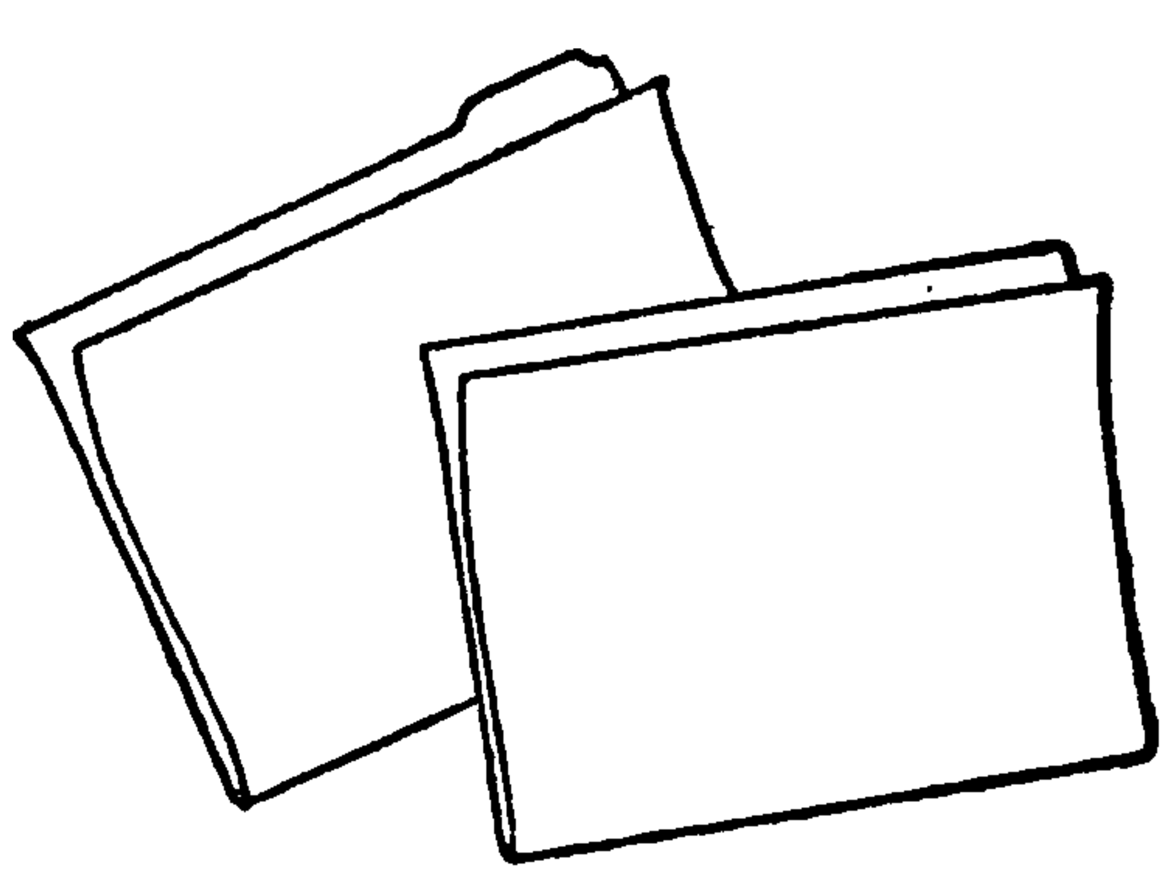




Vertical files are becoming very popular. Essentially, they consist of drawers with a sectional division similar to that of box files. Most frequently, instead of having prearranged sections, folders are employed into which all letters or papers, or whatever the matter is that is to be retained, is placed. Each folder is lettered individually, so that all the material relating to Smith, for example, would be found in the folder labeled Smith, and filed in the compartment or section labeled "S." Illustrations of the folder and the compartment are herewith shown:



Folders



Tabbed Folder

Square Cut Folder

Numerical files are similar in construction to the vertical files, but the index consists of a figure instead of the alphabetical arrangement. Each folder is given a number, while a card index, alphabetically arranged, refers to the numbers, making the folder readily available for use.

These brief remarks regarding filing systems are intended for those who have had no actual office experience. The man or woman who is acquainted with office routine will probably find the matter here detailed already familiar. For both classes of readers, the novice as well as the trained one, the catalogues of leading filing cabinet concerns are suggested for further study.

VI. Remittances.—We have already learned, under the section dealing with the receipting of invoices, that it is no longer universally customary to send with the payment of an invoice the invoice itself to be receipted. Instead, "remittance slips" which accompany the check in payment of one or more invoices, are now frequently employed. This remittance slip gives all the information that it is necessary for the creditor to know regarding what items any particular check in question cancels. Various forms will be shown so as to make the matter clear.

a. A simple form:

Folio 15

To A. B. C. Co. 3/20/19

Boston, Mass.

Enclosed you will find our check number 150, on First National Bank, for $750.00, in settlement of invoices of 3/10-12-16-19, less 2% discount.

Remarks You will note we deducted $10.00 for damaged goods as per our letter of 3/22

X. Y. Z. CO.

J.

Comments.—Observe that this is practically a "form" letter. By "form" letter is meant a printed letter so arranged as to make unnecessary the repetition, in each instance, of those matters which every such letter has in common. The spaces which have been filled out in

script are those which the bookkeeper or clerk fills out in each case to correspond with the needs of any specific instance.

b. A type of the form employed by many concerns:

DETACH AND KEEP THIS MEMORANDUM

1 Water St. New York July 5, 19— Irving No. 4547

Pay Memorandum from JENKINS & SONS

To Messrs. Williams & Rand, City

The annexed check is issued in payment of account as per statement below. Indorsement on back of check constitutes receipt and no other acknowledgment is necessary.

		Account to 1 inst., as per your statement						
6	8		600	00				
6	18		500	00				
6	27		400	00	1,500	00		
		Less 2%	30	00				
		Less freight	24	00	54	00		
		Net amount herewith					1,446	00

Comments.—1. Note how the individual invoices which are paid are listed.

2. Note how the discount is deducted.

3. Observe also how any other deductions are made.

4. The amount of the check should correspond with the "net amount herewith."

c. Special forms:

Some concerns, like the New York Telephone Company or the Consolidated Gas Company, for example, provide for their customers a ready remittance slip. The following example of the form employed by the New York Telephone Company requires no comment:

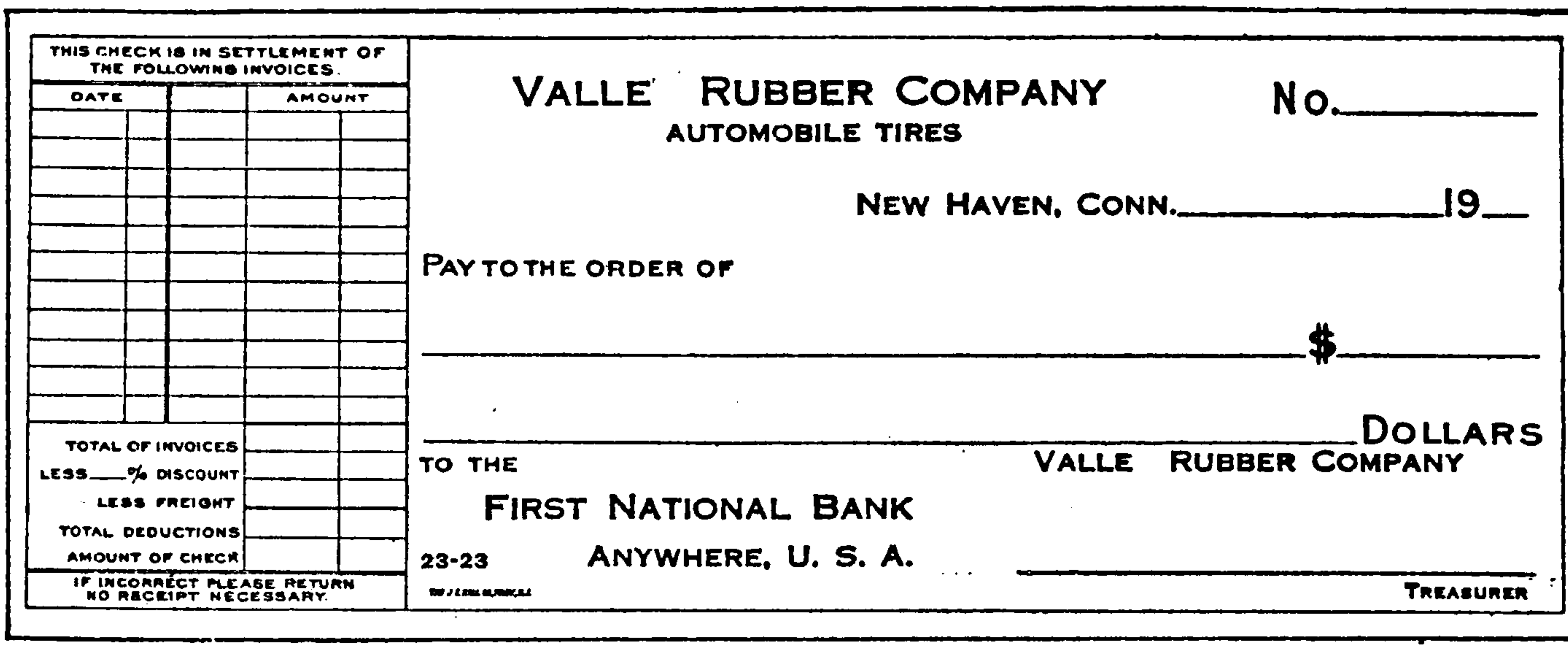
2793 James Hastings
Gree Room 1300
45 West 34th St.

10	92	July 1, 19—

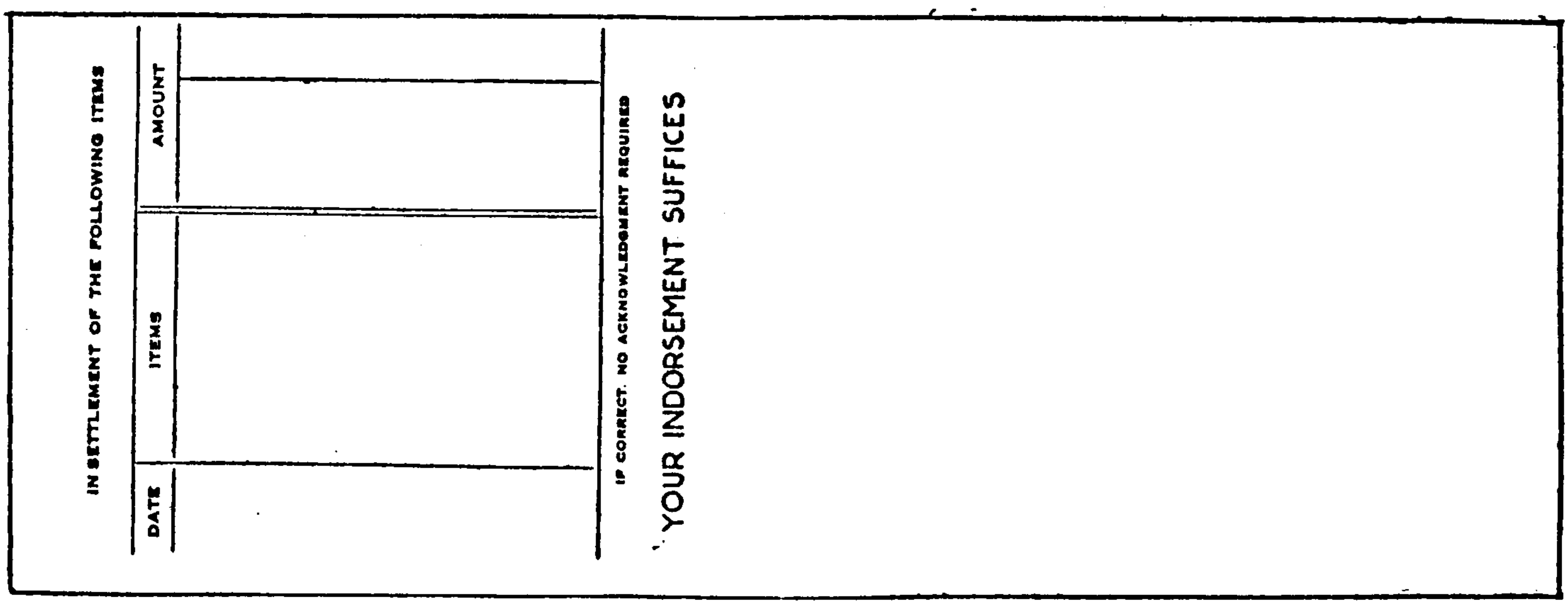
This stub should be inclosed with remittance. When payment is made by check bill should be retained by you—note space provided for your record. Receipts will be mailed on check payments when specially requested.

New York Telephone Company

d. There is a tendency to do away with remittance slips, by incorporating in the check the information usually contained in remittance slips. The following forms are self-explanatory:


THIS CHECK IS IN SETTLEMENT OF THE FOLLOWING INVOICES.
DATE | AMOUNT
TOTAL OF INVOICES
LESS ___% DISCOUNT
LESS FREIGHT
TOTAL DEDUCTIONS
AMOUNT OF CHECK
IF INCORRECT PLEASE RETURN NO RECEIPT NECESSARY.

VALLE RUBBER COMPANY
AUTOMOBILE TIRES
No. ______
NEW HAVEN, CONN. ________ 19__
PAY TO THE ORDER OF
________ $ ______
________ DOLLARS
TO THE
FIRST NATIONAL BANK
23-23 ANYWHERE, U. S. A.
VALLE RUBBER COMPANY
____
TREASURER


IN SETTLEMENT OF THE FOLLOWING ITEMS
AMOUNT
ITEMS
DATE
IF CORRECT. NO ACKNOWLEDGMENT REQUIRED
YOUR INDORSEMENT SUFFICES

VII. Shipping Goods.—We learned, in the division dealing with orders, that the manner of shipping goods, together with the medium by which delivery was to be effected, was an important one. Until quite recently, all such deliveries were made by local express or private delivery system when the address of the purchaser was within the district of the seller; and when at a distance, or sometimes even when close by, the goods were shipped by express or by freight. We shall now consider shipping by express and by freight, as well as by the device which has become a very important factor in the commercial life of our country, that is, the Parcels Post division of the Post Office.

1. *Delivery by Express.*—Express companies accept deliveries to all parts of the country as well as to foreign countries. Packages which are

to be shipped are properly cased and labeled, and then given into the custody of an express agent. At this time it is customary to obtain a receipt from the agent which binds the express company. In case of loss, except in a few special cases, the buyer and not the seller must seek redress from the company, in virtue of the law of sales, which holds that title to goods passes from the seller to the buyer as soon as the goods have been intrusted to a "common carrier." Express companies, railways and steamship lines are the commonest types of such carriers. If desired, such express receipts may be obtained in duplicate, one copy being retained by the seller, and the other sent to the buyer, who uses it for the purpose of identifying his goods if necessary, and in some cases for making a claim upon the express company for failure to deliver. The express companies, by arrangements with railways and steamship lines, make quick deliveries to all parts of the country and to most parts of foreign countries. The following express receipts will prove interesting and instructive:

ADAMS EXPRESS COMPANY	MONEY ORDERS	TRAVELERS' CHEQUES	FOREIGN DEPARTMENT
BUREAU OF ORDER AND FOOD PRODUCTS REDUCES COST OF LIVING ASK FOR BOOKLET	THIS SYSTEM FOR SMALL REMITTANCES EXCELS ALL OTHERS FOR SAFETY, ECONOMY AND CONVENIENCE	PAYABLE ALL OVER THE WORLD USED AS INTERNATIONAL CURRENCY FOREIGN REMITTANCES BY DRAFTS OR MONEY ORDERS. AT MARKET RATES	SUPERIOR SERVICE FOR SHIPMENTS ABROAD

UNIFORM EXPRESS RECEIPT

Receiving Form 23
June, 1915

ADAMS EXPRESS COMPANY

NON-NEGOTIABLE RECEIPT ______________________ 191___

Received from ______________________ subject to the classifications and tariffs in effect on the date hereof, ______________________

____

______________________ value herein stated and warranted by shipper to be ______________________ Dollars.
(See foot note)

Consigned to ______________________

at ______________________ Charges ______________________

which the Company agrees to carry upon the terms and conditions printed on the back hereof, to which the shipper agrees, and as evidence thereof, accepts and signs this receipt.

______________________ Shipper.

______________________ For the Company.

NOTE —The Company's charge is based upon the character of the property, of which its value is an element, and its value must be declared in writing by the shipper unless its character is otherwise disclosed. When goods are hidden from view by wrapping, boxing or other means and the company is not notified of the character thereof, the shipper's declaration of value may be made by notation, "not exceeding $50.00" or "not exceeding $50.00 or 50 cents per pound, actual weight."

2. *Delivery by Freight.*—Bulky articles, as well as many others, are frequently shipped by freight rather than by express, on account of the saving in transportation cost. When shipping by freight the goods must be delivered to the railway or steamship company which will deliver the goods to the freight yard or wharf nearest to the consignee, that is, to the person to whom the goods are directed. The railway company

TERMS AND CONDITIONS

1. The provisions of the receipt shall inure to the benefit of and be binding upon the consignor, the consignee and all carriers handling this shipment, and shall apply to any reconsignment or return thereof.

2. The rate charged for carrying said property is dependent upon the actual value of the property which must be specifically stated in writing by the shipper, and applies only upon property of an actual value not exceeding fifty dollars for any shipment of one hundred pounds or less, or not exceeding fifty cents per pound, actual weight, for any shipment in excess of one hundred pounds. If the actual value is greater than fifty dollars for any shipment of one hundred pounds or less, or exceeds fifty cents per pound, actual weight, for any shipment in excess of one hundred pounds, such actual value must be specifically stated in writing by the shipper, and excess charges for such greater value must be paid therefor in accordance with the lawfully published tariffs of the Company.

3. Said property is accepted as merchandise only, and the Company shall not be liable for the loss of money, bullion, bonds, coupons, jewelry, precious stones, valuable papers or other matter of extraordinary value, unless such articles are enumerated in the receipt, as the Company does not transport such articles except through its money department.

4. Unless caused by its own negligence or that of its agents, the Company shall not be liable for —
   a. Difference in weight or quantity caused by shrinkage, leakage or evaporation.
   b. The death, injury or escape of live freight.

5. Unless caused in whole or in part by its own negligence or that of its agents, the Company shall not be liable for loss, damage or delay caused by —
   a. The act or default of the shipper or owner.
   b. The nature of the property, or defect or inherent vice therein.
   c. Improper or insufficient packing, securing or addressing.
   d. The Act of God, public enemies, authority of law, quarantine, riots, strikes, perils of navigation, the hazards or dangers incident to a state of war, or occurrence in Customs warehouse.
   e. The examination by, or partial delivery to, the consignee of C. O. D. shipments.
   f. Delivery under instructions of consignor or consignee at stations where there is no agent of the Company after such shipments have been left at such stations.

6. Packages containing fragile articles or articles consisting wholly or in part of glass must be so marked and be packed so as to insure safe transportation by express with ordinary care.

7. If no express company has an agency at the point of destination, said property may be carried to the agency nearest or most convenient thereto and the consignee notified.

8. Claims for loss, damage or delay must be made in writing to the carrier at the point of delivery or at the point of origin within four months and suits must be instituted within two years after delivery, or, in case of failure to deliver after a reasonable time for delivery has elapsed.

Unless claims are so made and suits so brought the carrier shall not be liable.

9. If any C. O. D. is not paid within thirty days after notice of non-delivery has been mailed to the shipper, the Company may, at its option, return the property to the consignor and collect the charges for transportation both ways.

10. The Company shall not be required to make free delivery at points where it maintains no free delivery service nor at any point beyond its established and published delivery limits.

Special Additional Provisions as to Shipments Forwarded from the United States to Places in Foreign Countries.

11. If the destination specified in this receipt is in a foreign country, the property covered hereby shall, as to transit over ocean routes and by their foreign connections to such destination, be subject to all the terms and conditions of the receipts or bills of lading of ocean carriers as accepted by the Company for the shipment, and of foreign carriers participating in the transportation, and as to such transit is accepted for transportation and delivery subject to the acts, ladings, laws, regulations and customs of oversea and foreign carriers, custodians and governments, their employes and agents.

12. The Company shall not be liable for any loss, damage or delay to said shipments over ocean routes and their foreign connections, the destination of which is in a foreign country, occurring outside the boundaries of the United States which may be occasioned by any such acts, ladings, laws, regulations or customs.

13. It is hereby agreed that the property destined to such foreign countries, and assessable with foreign, governmental or customs duties, taxes or charges, may be stopped in transit at foreign ports, frontiers or depositories, and there held pending examination, assessments and payments, and such duties and charges, when advanced by the Company, shall have become a lien on the property.

AMERICAN EXPRESS COMPANY at ________________ Received from ________________

Subject to the Classifications and Tariffs in effect on the date accepted, the properties hereinafter described, which the Express Company agrees to carry upon the terms and conditions of its regular form of receipt printed on inside front cover of this book, to which the shipper agrees, and as evidence thereof, accepts and signs this receipt. (NON-NEGOTIABLE RECEIPT.)

6049 & 6051)

DATE		DESCRIPTION AND CONTENTS	Value Herein Stated and Warranted by Shipper to be		CONSIGNED TO	DESTINATION.	FOR THE COMPANY

____

Shipper.

or the steamship line furnishes receipts similar to those given by the express companies. Frequently, when shipping goods to distant points, and almost invariably when sending goods abroad, instead of freight receipts, legal documents known as bills of lading, abbreviated B/L., are employed. These bills of lading are made in triplicate, one of which is retained by the carrier, and the other two are furnished to the consignor (shipper, seller). The seller keeps the duplicate and forwards the origi-

nal to the buyer, who cannot secure the goods shipped without surrendering the original to the carrier. Frequently, the seller refuses to part with the bill of lading until the buyer has paid for the goods. The methods of effecting collection prior to the delivery of the bill of lading is a subject which will be treated of separately in another part of this chapter (§ XII).

3. *Delivery by Parcels Post.*—Packages of limited weight and size, with a tendency to increase both limits, may be shipped all over the country and to foreign lands through the Post Office. Certain goods are excluded, but most articles of merchandise and farm produce are accepted by the government. Charges may be prepaid by affixing stamps as in the case of letters. To insure safe delivery, and to be reimbursed in case of failure to deliver or other loss, such packages may be insured upon the payment of stipulated fees. This process is equivalent to registering ordinary mail.

4. *Delivery by Seller.*—When parcels are delivered by one's own delivery system, receipts are often taken from the customers to show that the goods have actually reached their proper destination. Some of the large department stores, however, do not obtain such receipts, because of the time which is saved by dispensing with them. Experience shows that the loss resulting from claims for nondelivery is inconsiderable in comparison to the saving effected. The receipt, when executed, is in a so-called receipt book, frequently of the following form:

> New York, May 2, 19—
>
> Received from Y. Printing Company
>
> Two (2) packages
>
> A. Ryan
>
> per..........

VIII. Pay Rolls.—The student who expects to enter the business world must learn how to make up pay rolls. Pay roll is the business term for the amount of weekly wages or salary, as well as for the list of employees, together with other details connected with the amount of wages or salaries to which they are entitled. In order to ascertain the amount due to employees each period, usually each week, it is customary to record the "time" which the employees have spent on behalf of the concern, and for which they are entitled to payment. The record

of such services rendered is entered in a time book or on a time card. The time book consists of the names of the individual employees, sometimes accompanied by the numbers which have been assigned to such employees, as well as by the title of the position which each fills respectively, so arranged that the amount of time spent each day may be listed in appropriate columns opposite the name of each employee. Where time cards are employed as a substitute for time books, the time of arrival as well as the time of leaving of the employee is punched or stamped upon the card by various mechanical clock devices. The pay roll book frequently consists of a combined time book and a pay book. The following form is employed by many concerns where the number of employees is not large:

Pay Roll Week Ending May 16, 19—.

No.		M.	T.	W.	T.	F.	S.	Total Hours	Per Hour.	Amount.	
1	W. Benson	9	9	9	8	9	8	52	50c.	26	00
2	D. Shutkind	9	8	9	9	9	9	53	50c.	26	50
3	G. Jacobs	8	–	–	9	9	$8\frac{1}{2}$	$34\frac{1}{2}$	45c.	15	53
5	S. Begam	9	9	9	9	9	$8\frac{1}{2}$	$53\frac{1}{2}$	50c.	26	75
6	F. Vincent	9	8	8	8	$8\frac{3}{4}$	9	$50\frac{3}{4}$	20c.	10	15
7	L. Heinrich	9	9	8	9	9	8	52	15c.	7	80
9	B. Pearlman	$8\frac{1}{2}$	9	9	9	9	9	$53\frac{1}{2}$	75c.	40	13

When the money to which each employee is entitled has been ascertained, it is frequently necessary to make out pay-roll envelopes. Such envelopes bear the name and number of the employee, together with the amount of money inclosed in the envelope. Sometimes the time spent by the employee is also placed upon the envelope. A form of such pay-roll envelope follows:

No......... Hrs............

Name..............................

\$........

In order to facilitate the paying of employees, it is well to obtain from the bank the proper denominations of currency and bills required. For the pay roll shown in the pay-roll book above, the following analysis

sheet gives the desired information as to the kinds of money best suited to pay off most efficiently:

No.	Amount.		$10.	$5.	$2.	$1.	H.	Q.	D.	N.	P.
1	26	00	2	1		1					
2	26	50	2	1		1	1				
3	15	53	1	1			1				3
5	26	75	2	1		1	1	1			
6	10	15	1						1	1	
7	7	80		1	1		1	1		1	
9	40	13	4						1		3

Comments.—*a.* Employee No. 1, Mr. W. Benson, earned $26.00 during the week. To pay him in the least number of pieces of money would require a twenty-dollar bill, a five-dollar bill and a one-dollar bill, but as it is not convenient for many workmen to handle bills of large denominations, $10.00 is usually the largest bill employed.

b. Note that employee No. 2, whose pay for the week amounts to $26.50, should receive two ten-dollar bills, one five-dollar bill, one one-dollar bill, and a half-dollar piece.

c. The Currency Memorandum page 383, is self-explanatory.

d. It is not unusual for an error to occur in filling the pay-roll envelopes. Such an error is disclosed when we come toward the last few envelopes to be filled, when it may be found, for example, that instead of having a five-dollar bill required for a certain envelope, an extra two-dollar bill is left over. The conclusion is that in some envelope, already handled, a five-dollar bill was placed instead of a two-dollar bill, and experience shows that such a conclusion is usually warranted. The process then consists of opening all envelopes which were to contain two-dollar bills in order to ascertain whether or not a five-dollar bill had been substituted. If this test does not disclose the error, on the assumption that the money was counted and properly checked in the beginning, all the other envelopes must be inspected.

IX. **Bank Accounts.**—A recent investigation showed that in wholesale business over 99% of all transactions were settled by checks. Though the percentage of check settlements in retail business is much less, nevertheless the volume is very considerable. No one can hope to make much headway in a study of business, without becoming thoroughly familiar with the services rendered by banks. The banks

New Netherland Bank

Of New York

CURRENCY MEMORANDUM

Depositor T. Brown

Bills;—100's				
50's				
20's				
10's	12		120	
5's	5		25	
2's	1		2	
1's	3		3	
Silver Coin; — Halves	4		2	
Quarters	2			50
Dimes	2			20
Nickels	2			10
Cents	6			06
Gold Coin:				
Total			152	86

which we have in mind are not savings institutions, but commercial and business banks. The principal functions of such banks are fourfold:

(1) To act as a safe depository for funds;

(2) to pay out such funds upon proper requisitions in the form of checks;

(3) to lend money to depositors or customers;

(4) to act as check, note and draft collection agent for customers.

Other functions, of course, are performed by banks, but in this connection the four outlined above will be sufficient for immediate attention.

The initial relationship between the bank and a customer is established by what is technically known as "opening an account." This consists of a visit to the bank by the customer, who introduces himself or has himself introduced to an official of the bank, frequently the president or the cashier, and the making of the first deposit. The deposit is entered upon a so-called deposit slip, page 385, which accompanies the money or checks deposited, and for which a receipt is obtained in the form of an entry in a pass book illustrated below. The customer leaves with the bank his signature, together with such other information as each individual bank may see fit to require, and before leaving the bank he receives a check book which is to furnish him the means whereby he can withdraw such sums as he wishes, up to the limit of his deposit.

The deposit slip, on the assumption that the first deposit consisted of $200.00 in currency, and three checks of $112.00, $310.40, and $293.27, respectively, appears as shown on page 385.

The bank pass book page would appear as follows:

DEPOSITS MADE FOR
ACCOUNT OF
T. Brown

19—					
Feb.	10	R		915	67

The pass book, as we have already learned, serves as a receipt from the bank to the customer. This book is taken to the bank whenever a deposit is made and the amount of each deposit is entered. At the same time, a corresponding memorandum, frequently a duplicate of the deposit slip, is entered in the check book, so that when the amounts of the withdrawals, as shown by the checks, are ascertained, the bank balance will always be available. To take a concrete illustration, let

New Netherland Bank

OF NEW YORK.

DEPOSITED BY

T. Brown

NEW YORK, Feb. 10, 19—

LIST EACH CHECK SEPARATELY.
PLACE BAND AROUND BILLS; MARK NAME AND AMOUNT THEREON.

ENDORSEMENT OF DEPOSITORS REQUIRED ON ALL CHECKS.

	DOLLARS	CENTS
BILLS	196	
GOLD		
SILVER	4	
CHECKS	112	
"	310	40
	293	27
	915	67
"		
"		
"		
"		

us assume that two additional deposits were made besides the initial one herein referred to, and that seven checks were drawn.

The check book, after the checks had been removed, would appear as follows:

February 10. Deposit		915.67		No. 1		
Cash	200.00					
Brown & Co., Ck.	112.00		Feb. 11	19—		
T. Smith, Ck.	310.40					
F. L. Long, Ck.	293.27					
			Jones & Co.			
			Inv. 2/6	$200		
			Less 2%	4	196	—
				No. 2		
			Feb. 11	19—		
			John Smith			
			Fur. and Fixtures.			
			1 desk,	$50		
			6 chairs @ $5	30	80	—
				No. 3		
			Feb. 13	19—		
			Fuller Realty Co.			
		351.	Feb. rent		75	—
		564.67			351	—

Comments.—1. Note that the checks are numbered consecutively.

2. The amount carried out to the money column on each stub corresponds to the amount of the check.

3. Details of each check are recapitulated on the corresponding

		564.67			
Feb. 14. Dep.			No. 4		
Frank Smith					
Cash	50		Feb. 14 19—		
John Jones					
Cash	25.50				
Robt. Stern					
Check	75	150.50	Edison Electric Light Co.		
		715.17	Deposit	20	—
Feb. 15. Dep.			No. 5		
T. James					
Cash	36.17		Feb. 14 19—		
R. Turner					
Ck.	100	136.17			
		851.34	Allen Bros.		
			Inv. 2/8 $150		
			Less 2% 3	147	—
			No. 6		
			Feb. 15 19—		
			T. Brown		
		217	Private a/c	50	—
		634.34		217	—

		634.34	No. 7		
			Feb. 16 19—		
		56.40	Bearer		
		577.94	Week's pay roll	56	40

stub. Thus, check No. 1, invoice of Jones & Co., was dated February 6, and amounted to $200.00, but as it was paid within 10 days, 2% was deducted, making the amount of the remittance, $196.00.

4. The total of the three checks on the first page of the check book amounts to $351.00, and this amount is deducted from the deposit previously made, so that the balance, $564.67, is carried forward to the second page of the check book.

5. Note that each deposit is a summary of the corresponding deposit slip. The amount of the deposit is added to the previous balance. The old balance is carried forward from page to page.

6. The last check shown is No. 7 for $56.40. If it were required to find the balance in the bank at this point, $56.40 might be deducted mentally from the previous balance, $634.34, or it might be deducted as shown in the illustration above.

Drawing Checks.—In drawing checks, certain precautions must be observed. The stub of the check must be made out first so as to avoid the possibility of writing a check, removing it from the check book and failing to make a note on the stub as to the amount. Such lapses have sometimes caused grave inconvenience due to the fact that bank balances were consequently "overdrawn." By overdrawing a bank balance is meant the writing of checks for greater amounts than is warranted by the balance in the bank. After the stub has been filled out properly, the check should then be written. It is necessary that the amount should be so written as to avoid the possibility of "raising" it.

Many business houses employ perforating devices so as to make quite impossible the raising of amounts. One such device consists of perforating the amount by means of special machines. Another method is to stamp across the face of the check: "Good for not over $——."

Losses resulting from the payment of raised checks are borne by the bank which honors such checks, unless the maker of the check was really negligent in not taking common precautions to prevent raising. Hence the importance of drawing checks carefully, as illustrated below:

For example, if a check for $3.00 were written as follows:

No. 671 New York, Feb. 15, 19—

COMMERCIAL BANK

Pay to the order of Frank Brown $ 3

Three Dollars

John Jones

It could easily be raised to $300.00 or $3,000.00, as follows:

No. 671 New York, Feb. 15, 19—

COMMERCIAL BANK

Pay to the order of Frank Brown $3000.00

Three Thousand Dollars

John Jones

To prevent such alterations, the check should be written as follows:

No. 671 New York, Feb. 15, 19—

COMMERCIAL BANK

Pay to the order of Frank Brown $3 00/100

Three Dollars

John Jones

Balancing the Check Book.—We have already alluded to the fact that unless the stub of the check is filled out properly before the check itself is removed, there is great danger that no record will be retained of the check issued, and, secondly, that the bank balance may be overdrawn. In order to avoid overdrawing, as well as at all times to have ready positive knowledge regarding the amount of money in the bank, the check book should be constantly balanced. The balancing has already been described on pages 386–388.

Balancing the Pass Book.—Once a month, as a usual procedure, business banks furnish each depositor with the amount of his balance. Until recently, in order to obtain this balance from the bank, the depositor's pass book was left there to be "written up." The writing up consisted of an addition of all the deposits which had been previously entered upon the left-hand page of the pass book, together with an addition of the total amount of checks drawn against these deposits,

shown by the canceled " vouchers " returned, resulting in the balance at the bank. Instead of having the bank pass book written up, modern banks continue to employ the pass book as a receipt for deposits, and return to each depositor the amount of canceled vouchers once a month, without having the book left at the bank. The vouchers are returned in an envelope, such as is shown on the opposite page.

Comments.—1. $600.00 is the balance which existed Feb. 28, 19—.

2. The three items, $142.50, $50.00 and $287.10, represent deposits also shown in the pass book.

3. The " list enclosed " is typed on an adding machine, and amounts to $400.00:

100.00
30.75
15.00
3.70
2.00
7.20
198.00
43.35
400.00

The envelope illustrated above contains the canceled vouchers. Each voucher is a check issued by the customer, and finally paid by the bank. It is necessary to ascertain whether the bank's balance is correct or not. The process of determining this fact is known as reconciling the cash or bank balance.

Let us assume that the check book shows a balance of $500.00 in the bank. This balance will probably be less than that shown by the bank, because of the fact that certain checks issued have probably not yet been presented to the bank for payment. The proof of the correctness of the bank's balance, is shown by the following:

RECONCILIATION STATEMENT

April 1, 19—			
Balance as per check book			$500.00
Balance as per bank pass book		$679.60	
Less outstanding checks:			
No. 19	$50.25		
No. 22	35.75		
No. 23	93.60		
Total outstanding checks		179.60	$500.00

T. BROWN
12 Front St., City

IN ACCOUNT WITH

New Netherland Bank of New York,

FOR THE MONTH OF MARCH, 19____

Day	Description		Credit		Day	Description		Credit	
	Balance		600						
3			142	50					
6			50						
24			287	10					

TOTAL CREDITS				1079	60
Checks as per list enclosed					
Total charges deducted				400	
April 1, 19.. BALANCE				679	60

Please examine account and report any errors, as this statement will be considered correct unless we are notified to the contrary within one month.
PLEASE NOTIFY OF ANY PERMANENT CHANGE IN ADDRESS.

Safe Deposit Boxes $5.00 per Year and Upward.

It will be observed that when we deduct from the bank's balance the amount of the checks drawn, but not yet paid by the bank, the balance is the same as that shown by the check book.

X. Petty Cash.—A recent study disclosed the fact that almost one hundred per cent of all the wholesale transactions are settled by check; nevertheless the business man continues to employ currency in the payment of small items. Some transactions can be settled by cash only, as for example, the purchase of postage stamps, the payment of carfare, etc. In order to provide for the proper recording of such small or petty transactions, the Petty Cash Book is employed.

An initial check is drawn for the amount decided upon as sufficient for petty cash purposes, and the check is cashed at the bank. The proceeds are placed in the so-called petty cash drawer. The entry which results from this transaction is as follows:

Petty Cash	$_____	
Cash		$_____

This entry is then posted, resulting in a debit to the Petty Cash account and a credit to the Cash account. Corresponding to the debit posted, an entry is made in the receipt column of the Petty Cash Book.

The cashier in charge of petty cash should make no disbursements unless a receipt or voucher is given him. Frequently such vouchers consist of rough memorandum slips, but in well regulated offices a form such as that which follows is employed:

Date..........	No..............
Voucher for $........	
Purpose......................................	
Signed........................	
Approved............Entered....................	

Observe that the purpose for which the disbursement is made must be shown and that it must be approved or O. K.'d by someone in authority. When the amount of the voucher has been carried to the disbursement column of the Petty Cash Book, the fact is indicated by writing the page of the Petty Cash Book in the space, on the voucher, after "entered."

The following form illustrates the manner of "keeping" a simple Petty Cash Book:

PETTY CASH BOOK

Date		Account	Explanation	Receipts		Disbursements	
19—							
Sept.	1	Cash	Ck. No. 8	25	00		
	3	Postage	200 Stamps			4	00
		Expressage	Smith's Invoice				65
	6	Salary	Bailey; 3 days.			7	50
	7	Stationery	1 doz. Pencils				20
	9	Stationery	Carbon Paper & Rib.			2	85
		Salary	Franklin, 1 day			2	25
		Postage	50 Postals				50

The balance of petty cash on September 9, according to the Petty Cash Book just shown, is $7.05. It will now be necessary to replenish the cash drawer. One method is to draw a check for *about* $10.00 or $20.00, but the best method is to make a voucher for the disbursements already made, recapitulated under the headings of the accounts to which the expenditures are to be charged, and then draw a check for the total expenditure to date. When the amount of this check is placed in the cash drawer it will be found that there will be exactly $25.00 there. This method of reimbursing the cash drawer for exactly the amount of expenditure since the day when the previous check was drawn is known as the Imprest System.

The voucher, as a result of which a Petty Cash check for $17.95 will be issued, is as follows:

PETTY CASHIER'S VOUCHER

For $17.95
From Sept. 1, 19— to Sept. 9, 19—

Postage	$4.50	Ck. No................
Salary	9.75	For $17.95
Stationery	3.05	
Expressage	.65	
Miscellaneous		O. K................
Total	$17.95	

If the Petty Cash Book shown on page 393 is employed, the expenses for a given period must be summarized or recapitulated whenever more funds are required. In order to facilitate this process of recapitulating, many bookkeepers employ a specially ruled Petty Cash Book. The following illustration should make clear the advantages of such a special Petty Cash Book:

PETTY CASH BOOK

Impress Fund $25.00.

Voucher No.	Date 19—		Disbursements											
			Postage		Salary		Stationery		Expessage		Mis-cellaneous		Total	
1	Sept.	3	4	00									4	00
2										65				65
3		6			7	50							7	50
4		7						20						20
5		9					2	85					2	85
6					2	25							2	25
7				50										50

It should be observed that the Petty Cash Book just illustrated provides no column for receipts. Such a column is unnecessary because the petty cash receipts, after the initial amount given to the clerk in charge of petty cash, is in repayment of disbursements already made. Accordingly, when disbursements are returned to the cashier in charge of petty cash, the fund is brought up to its original status.

It should also be noted that the entry for the check given to replenish the cash drawer is made in the Journal, or other book of original entry, to correspond to the cashier's voucher, as follows:

Postage	$4.50	
Salary	9.75	
Stationery	3.05	
Expressage	.65	
Cash		$17.95

XI. Bill Books.—The student learned in Part I, Section 12, that it was customary to receive notes as well as to give them. As a matter of business practice, it is necessary that the student know several things regarding these notes. He must know how to draw such a note,

and he must be familiar with some of the fundamental legal principles affecting promissory notes. Moreover, it is necessary that he know, besides, what entries are made when such notes are given or received and the use of a certain memorandum book which will be explained in this connection.

(*a*) *Notes Receivable.*—If Thomas Smith, to whom Frank Brown had sold \$865.00 worth of merchandise, paid by means of a note, the promissory note might appear as follows:

> \$865 00/100 New York, Mch. 3, 19—
>
> One month after date I promise to pay to
>
> the order of Frank Brown
>
> Eight hundred sixty-five 00/100 Dollars
>
> at New Scotia Bank
>
> Value received
>
> Thomas Smith
>
> No. 3 Due April 3

Comments on the above note.—1. Thomas Smith is technically known as the *maker* of this note.

2. Frank Brown is called the *payee*, the person to whom the specified amount is to be paid.

3. The face of the note is its amount, namely \$865.00.

4. The date is obvious enough, March 3, 19—.

5. The time is specified as one month; this means that Thomas Smith promises to pay to Frank Brown \$865.00 one month after the date of the note, or on April 3. If April 3 happens to fall on a Sunday or on a legal holiday, the date of maturity is advanced to the next business day.

6. The law requires that all notes of this sort shall be signed by the person or concern who is to pay, though an "X" mark is accepted under certain circumstances. The amount of the note must be clearly stated or else easily ascertained; it must be for a sum certain in money only, and must be paid at a time certain to arrive. Smith is to pay this note at his bank, as designated.

The law here briefly summarized is not sufficient for the purposes of those who expect to become executives in the business world; the Negotiable Instruments Law should be thoroughly studied and mastered.

(*b*) *Notes Payable.*—Had Brown bought these goods from Smith, and had he given a similar note, it would appear as follows:

$865 $\frac{00}{100}$	New York, March 3, 19—
One month after date I promise to	
pay to the order of Thomas Smith	
Eight hundred sixty-five $\frac{00}{100}$ ~~~~~~~~~~~~~~~~~~ Dollars	
at New Scotia Bank	
Value received	
No. 3 Due April 3	
	Frank Brown

Comments are not necessary in reference to the foregoing note, as practically all those made in connection with the first are equally applicable to the present case.

(*c*) *Bill Books.*—Notes such as are herein described may be received in large number and quite frequently. In order to keep before us a constant reminder of when notes fall due, so as to be ready to demand payment on notes receivable, and to be prepared to meet our obligations on notes payable, a record has been devised by bookkeepers, with which it is necessary that the business man familiarize himself.

The illustration on page 397 contains three entries in the so-called Bills Receivable Book.

Comments.—(*a*) The first entry shows that we (Klein & Student) received a note from Albert Ring, on March 1, 19—, on account, payable at the Commercial Bank; that the note was dated February 29, 19—, payable in 30 days and due March 30, 19—, and that it was discounted at the New Netherland Bank, the proceeds being $995.83.

(*b*) The second entry shows that we (Klein & Student) received a note from Frank Reid, on March 10, 19—, in full of account; that the note was dated March 8, payable in three months and due June 8, 19—. As the " Where Payable " column indicates, we are to collect at the office of Mr. Reid, whose address is known to us.

(*c*) The third entry shows that the amount is $1,200.00, with interest at 6%, so that when the note is due on July 14, John Collins will pay us not $1,200.00, but this amount plus $24.00 interest, making a total of $1,224.00.

Now consider the entries in the Bills or Notes Payable Book shown on page 398.

NOTES RECEIVABLE

No.	Recd.		Drawer or Indorser	Drawee or Maker	In Whose Favor	Explanation	Where Payable	Date of Paper			Time to Maturity	When Due	Face		Int. Rate	Disposal.				
								Yr.	Mo.	Da.						Amt.		Date		Remarks
	19—																			
1	Mar.	1		Albert Ring	Ourselves	On a/c	Com'l Bank	19—	Feb.	29	30 days	3/30/—	1,000	00		995	83	Mar.	5	Dis. N. N. Bk.
2	Mar.	10		Frank Reid	Ourselves	In full	His office	19—	Mar.	8	3 mos.	6/8/—	800	00						
3	Mar.	15		John Collins	Ourselves	In full	His office	19—	Mar.	14	4 mos.	7/14/—	1,200	00	6%					

NOTES PAYABLE

No.	Given		Drawer or Indorser	Drawee or Maker	In Whose Favor	Explanation	Where Payable	Date of Paper			Time to Maturity	When Due	Amount	Int. Rate	Disposal			Remarks
								Yr.	Mo.	Da.					Amount	Date		
20	19— Mar.	8		Ourselves	John Williams	On a/c	N. N. Bk.	19—	Mar.	7	15 days	3/22/—	500 00		500 00	Mar.	22	Pd. by Bank
21	Mar.	12		Ourselves	B. Jacobson	In full	N. N. Bk.	19—	Mar.	12	2 mos.	5/14/—	1,000 00	6%				
22	Mar.	15		Ourselves	R. Thompson	On a/c	N. N. Bk.	19—	Mar.	15	30 days	4/15/—	1,500 00					

Comments.—(*a*) The first was a 15-day note which was paid by the bank and charged to our account (Klein & Student), which means that the note was presented for payment and paid at our bank, the amount being deducted from our balance at the bank. (Instead of having a note so charged to our account, it is sometimes customary to draw a check with which to redeem it.)

(*b*) The second was a note with interest at 6% for two months and, as indicated, is due May 12. The due column of the Bill book is frequently of the following form:

WHEN DUE											
Jan.	Feb.	Mch.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
		22									
				14							
			15								

(*c*) The third entry requires no comment.

Special Comments.—Notes such as described in the bill books, when discounted at the bank, are entered in the bank pass book, just as a deposit is entered. The usual difference is this: that whereas a deposit is entered in black ink, the proceeds of a discounted note are very frequently entered in red, though the practice of employing different colored inks is rapidly becoming obsolete.

XII. Drafts.—After goods are sold and shipped, it sometimes occurs that customers fail to pay according to the terms of sale. In such cases, the matter of delinquency is brought to their attention either by telephone, by correspondence or by personal interview. If such action does not result in payment, other steps are in order. One such step consists of "drawing" on the customer. Drawing consists of writing or drawing a "sight draft" on the customer, in favor either of ourselves or of our bank.

Assume that Thomas Brown of Boston, Mass., to whom we had sold $360.00 worth of merchandise, had failed to pay us when due, and had continued to ignore our letters requesting payment. If now we decided to draw on him, the sight draft would appear as shown on the following page:

No. 135	New York, October 18, 19—
$360^{00}	

At sight, pay to the order of OURSELVES
Three hundred sixty $\frac{00}{100}$ ~~~~~~~~~~~~~~~~~~~~ Dollars
for value received, and charge to the account of

To Thomas Brown 100 Milk Street Boston, Mass.	Klein & Student

The above draft is simply a formal demand on Thomas Brown to pay us, or to anybody to whom we indorse the draft, the amount stated in the paper. This paper is handed to our bank for " collection " and at this time bears the following indorsement:

Pay to the order of
New Netherland Bank
Klein & Student

The New Netherland Bank would forward the draft, properly indorsed by it, to another bank in Boston, called its correspondent, which would present it for payment to Thomas Brown. If Thomas Brown paid the draft, the Boston bank would return to the New Netherland Bank the proceeds of the collection, i.e., $360.00, less a nominal charge for the services rendered. The New Netherland Bank would then credit our bank account with the amount of the net proceeds, less perhaps an additional small charge for the service rendered by the New Netherland Bank to us. If the draft were not paid by Thomas Brown, it would be returned to us, but the procedure then involved need not be discussed in the present connection.

Business men have come to believe that a delinquent customer will not be likely to refuse payment on a draft when presented by a bank, even though he might resist almost any other form of " dunning." This is for the reason that most business men are zealous of their credit standing, and they feel that to fail to honor a draft is a serious reflection on their financial ability. Trade associations, mercantile agencies and lawyers are also employed as agents instead of banks, to effect the collection of debts by means of such sight drafts, but the procedure is

so similar to that described in connection with banks that the matter need detain us no longer.

It is not customary to make any book entries when drafts of this sort are issued. Sometimes a memorandum is made to the effect that a draft has been handed to a bank or collection agency, but no real entry is necessary until payment has been received by us, in which case the receipt of the payment is treated exactly in the same way as is the receipt or any other money from a customer. The fees charged by the bank for collection are usually charged to Expense account or to Collection and Exchange account, and Cash account is credited.

There is at least one other use to which sight drafts are put which should be brought to the student's attention. When a common carrier issues a bill of lading for goods intrusted to it for shipment, such merchandise will not be delivered by the railway or steamship unless the original bill of lading is surrendered by the consignee. Should the seller wish payment for his shipment before it is delivered to the buyer, a very simple expedient may be employed. By attaching a sight draft to the bill of lading, and arranging with the bank for the service, the bill of lading will not be given to the consignee until he has honored the draft. Incidentally, many import and export transactions are handled in just this way.

SUMMARY

The purpose of this chapter was to illustrate the simpler business customs and usages which obtain in the world of trade and commerce. The point was emphasized that, in actual business, the bookkeeper, instead of recording business transactions as a result of having presented to him a list of occurrences, must make his entries on the basis of various papers and instruments which are issued and received by his concern.

In connection with the sale of goods, the student learned how to prepare and handle orders, invoices, monthly statements, remittance blanks and receipts. He also learned the use and meaning of dating and terms.

Various simple devices for filing letters, orders, invoices and other papers were illustrated and explained.

The importance of checks, together with the manner of keeping bank accounts, was made the subject matter of an important division of this chapter. The shipping of goods by express, freight and parcels post was discussed. The keeping of employees' time, together with the cal-

culation of amounts earned and the ascertaining of the denominations required for the efficient payment of employees was also presented.

Petty Cash and the use of notes and bill books concluded the discussion of this section.

Questions

1. Is it necessary to obtain a signed order from customers to whom sales were made by a salesman on the road?

2. Explain the following credit terms:

   (*a*) 2/10, n/30
   (*b*) Cash
   (*c*) 2/10—60x

3. What is meant by a receipted bill?

4. Are receipts essential when payments are made by check?

5. In what respect does a monthly statement differ from an invoice?

6. An experienced business executive once said that he considered filing one of the most important duties of the office worker. Try to show that the statement is true.

7. What is meant by an express receipt?

8. Explain in your own words " how to make up a pay roll."

9. What is the object of ascertaining denominations required for pay roll?

10. Explain the advantages to the business man of keeping a bank account.

11. How does the business man ascertain his daily bank balance?

12. What precautions should be taken in filling in the amount for which a check is drawn?

13. Describe the petty cash voucher.

14. What is the relationship between the petty cash book and the ordinary cash book?

15. Explain the process of " recapitulating petty cash."

Exercises

In the following exercises, assume that you are employed by Horace H. Greeley, whose office is at 200 Broadway, New York City. In each case, rule your own forms or else secure blanks suitable for the various exercises. Mr. Greeley banks with The Exercise National Bank.

1. Our salesman, William Lane, " booked " an order on September 18, 19—, from Lowenfeld & Wright, 3600 Fulton Street, Brooklyn, for the following goods:

   10 bbls. XXX flour @ $9.75 per bbl.
   3 bbls. Special " A " flour @ $10.25 per bbl.

These goods are to be delivered at once, terms 2/10, n/30. Show the order as it should appear when received by us.

2. Our salesman, Arthur Lang, " booked " an order on September 25, 19—, from Miller Bros., 100 Greene Street, New York City, for the following goods:

20 bbls. *** flour @ $9.50 per bbl.
10 bbls. " AA " flour @ $10.00 per bbl.

These goods are to be delivered at once, terms 2/10, n/30. Show the order as it should appear when received by us.

3. Show the invoice which should be sent to Lowenfeld & Wright (Exercise 1, above), assuming that the goods ordered by them were shipped on September 20, 19—.

4. Show the invoice which should be sent to Miller Bros. (Exercise 2, above), assuming that the goods ordered by them were shipped on September 27, 19—.

5. Show the entry on our books resulting from Exercise 3, above.

6. Show the entry on our books resulting from Exercise 4, above.

7. Show the entry on the books of Lowenfeld & Wright, resulting from Exercise 3, above.

8. Show the entry on the books of Miller Bros. resulting from Exercise 4, above.

9. On September 30, we received Lowenfeld & Wright's check for $125.68, in full payment of their invoice (Exercise 1, above). Show the bill, assuming that the receipt of the money was indicated on the invoice. Also show the check, assuming that Lowenfeld & Wright bank with the First National Bank of Brooklyn.

10. On October 6, 19—, we received Miller Bros.' check for $284.20, in full payment of their invoice (Exercise 2, above.) Show the bill, assuming that the receipt of the money was indicated on the invoice. Also show the check, assuming that Miller Bros. bank with the Excelsior National Bank.

11. Show the entry on our books resulting from the transaction of Exercise 9, above.

12. Show the entry on our books resulting from the transaction of Exercise 10, above.

13. Show the entry on Lowenfeld & Wright's books resulting from the transaction of Exercise 9, above.

14. Show the entry on Miller Bros.' books resulting from the transaction of Exercise 10, above.

15. The following Ledger account appears on our books:

Herbert C. Paine — 12 Decatur St. Brooklyn, N. Y.

19—											
Sept.	3	Mdse.		450	50						
	20	Mdse.		875	00						
	28	Mdse.		345	75						

Prepare a monthly statement dated September 30, 19—

16. The following Ledger account appears in our books:

Herbert C. Paine — 12 Decatur St. Brooklyn, N. Y.

19—						19—					
Sept.	3	Mdse.		450	50	Oct.	3	Check		1,000	00
	20	Mdse.		875	00						
	28	Mdse.		345	75						
Oct.	15	Mdse.		600	00						

Prepare a monthly statement dated October 31, 19—

17. The following Ledger account appears in our books:

John Whitney — 1200 Broadway New York City

19—						19—					
Sept.	18	Mdse.		550	00	Nov.	25	Check		1,500	00
	25	Mdse.		275	00	Dec.	5	Check		1,000	00
Oct.	15	Mdse.		1,050	00		20	Note		2,000	00
	28	Mdse.		1,500	00						
Nov.	10	Mdse.		890	00						
Dec.	12	Mdse.		2,000	00						
	18	Mdse.		875	00						

Prepare a monthly statement dated December 31, 19—. (Do not forget that it is the custom of our office to send monthly statements to each customer on the last business day of *each* month.)

18. Prepare a receipt to be signed by one of our workmen who was discharged on September 16, and to whom we paid his wages in full amounting to $9.65.

19. Prepare a receipt to be signed by a house decorator to whom we paid $25.00 on September 20, on account of his contract amounting to $150.00.

20. On September 12, 19—, we sent the Minneapolis Milling Co., Minneapolis, Minn., our check in full of their invoice dated September 2, 19—, for $950.00, less 2%. Show the remittance slip which might accompany the check.

21. On October 20, 19—, we sent the Ross Co., Des Moines, Iowa, our check in full of their invoice dated October 10, 19—, for $1,200.00, less 2%. Show the remittance slip which might accompany the check.

22. Assume that we employ a check containing a statement of remittance on its face, similar to the form illustrated on page 377. Write the check stub and the check for the remittance referred to in Exercise 20, above.

23. Employing a similar check and stub, fill them in to correspond to the transaction of Exercise 21, above.

24. Assuming that the goods ordered in Exercise 1 are to be shipped by the American Express Company, prepare the Express Company's receipt.

25. Assuming that the goods ordered in Exercise 2 are to be shipped by the American Express Company or by any other express company, prepare the proper receipt.

26. PAY ROLL WEEK ENDING OCTOBER 14, 19—

No.	Name	M	T	W	T	F	S	Total Hours	Per Hr.	Amt.
1	Frank Rose	8	8	9	8	8	7		55c.	
2	Carl Worth	8	8	6	8	8	8		40c.	
3	Ben Brody	9	9	9	9	8	8		45c.	
4	Jesse Jacobs	8	8	8	8	8	8		60c.	
5	A. Thomas	9	9	8	6	7	8		52c.	
6	T. Jameson	8	8	9	8	8	8		48c.	
7	A. Bishop	7½	7	8	9	9	8		54c.	
8	L. Arnson	8	9	8	8½	9	8		50c.	
9	B. Briggs	9	8¼	7	8	8½	8		60c.	
10	J. Kells	8	6	8	9	9	9		56c.	

(*a*) Ascertain the total of the foregoing pay roll.
(*b*) Determine the proper denominations of coins and bills required.
(*c*) Prepare the pay-roll envelopes.
(*d*) Prepare the currency memorandum to be presented to the bank.

27. PAY ROLL WEEK ENDING NOVEMBER 11, 19—

No.	Name	M	T	W	T	F	S	Total Hours	Per Hr.	Amt.
1	G. Sardou	8	8	8	8½	8	8		60c.	
2	M. Butler	9	8	8	7	8	8		50c.	
3	G. Fraser	8	8	8	9	9	8		55c.	
4	J. Williams	7	7½	8	8	8	8¼		35c.	
5	C. Janeway	8	8	8	8	8	8		56c.	
6	D. Walters	9	8	8	9	8	8		62½c.	
7	C. King	8	8	8½	8	8	8		60c.	
8	J. Bailey	7	8	8	8	8	8		64c.	
9	M. Nathan	8	8	8	8	8	8		37½c.	
10	A. Johns	8	8	9	9	8	8		52c.	

(*a*) Ascertain the total of the foregoing pay roll.
(*b*) Determine the proper denominations of coins and bills required.
(*c*) Prepare the pay-roll envelopes.
(*d*) Prepare the currency memorandum to be presented to the bank.

28. Prepare a deposit slip on the assumption that the deposit consists of the following: Checks for $257.89, $350.00, $467.98, $500.89, $125.00, $350.00 and $75.00, respectively; silver, $8.00, bills $175.00.

29. Prepare a deposit slip on the assumption that the deposit consists of the following: Silver $5.00; gold $25.00; checks for $137.50, $150.00, $89.00, $456.89, $345.00, $224.56 and $356.89, respectively; and $50 in bills.

30. Prepare a deposit slip on the assumption that the deposit consists of the following: Bills, $83.00, silver $1.00, gold $10.00, and checks for $132.50, $450.00, $320.00, $55.75, $48.00, $108.95, $875.00 and $400.00 respectively.

31. Assuming that the balance on September 1, 19— was $1,387.64, and the following deposits were made and the following checks drawn, show the check book as it would appear on September 30, 19— :

Deposits			Checks Drawn				
Sept.	2	$450.00	Sept. 2	No.	131	$57.00	F. Johnson
			2		132	100.00	D. Springer
	9	990.75	6		133	75.00	A. Franz
			8		134	101.50	D. Simmons
	11	536.00	8		135	98.00	Miller Bros.
			9		136	14.70	Bodwell Co.
			11		137	3.00	Knickerbocker Ice Co.
	14	675.00	11		138	3.20	Crystal Spring Water Co.
	19	847.75	12		139	931.00	Minneapolis Milling Co.
			14		140	425.00	Fairview Mills
	27	389.65	15		141	25.00	Edison Electric Light Co.
			16		142	200.00	Stone Furniture Co.
			18		143	75.00	F. Zorn, Prop.
			20		144	400.00	Pay roll
			22		145	35.00	Standard Stationery Co.
			26		146	3.00	Exclusive Towel Supply Co.
			27		147	250.00	Pay roll
			28		148	36.00	N. Y. Telephone Co.
			29		149	345.00	Marron Mills
			30		150	25.00	Petty Cash

32. Assuming that the balance on October 1, 19—, was $2,493.39, and that the following deposits were made and the following checks drawn, show the check book as it will appear on October 31, 19—:

Deposits			Checks Drawn				
Oct.	2	$348.67	Oct. 3	No.	213	$150.00	Franklin Realty Co.
			4		214	27.78	N. Y. Telephone Co.
			5		215	14.56	Rich Stationery Co.

Deposits		Checks Drawn			
6	765.00	5	216	2.68	Knickerbocker Ice Co.
		5	217	2.40	Crystal Spring Water Co.
11	689.70	7	218	135.00	Pay roll
18	550.75	7	219	50.00	F. Newman, Prop.
		10	220	490.00	Simpson Bros.
		12	221	588.00	John Roberts
23	680.00	14	222	115.00	Pay roll
		17	223	35.00	Petty Cash
		19	224	235.00	Braun Machine Works
27	880.80	20	225	135.75	Pay Roll
		20	226	1176.00	Ross Co.
		24	227	100.00	Underwood Typewriter Co.
		25	228	392.00	V. Green
		26	229	686.00	Quinn Bros.
		28	230	136.00	Pay Roll
		30	231	50.00	Longuemare Carburetor Co.
		31	232	21.00	Edison Electric Light Co.

33. Draw the checks corresponding to the first three stubs of Exercise 31.
34. On October 1, we received the following report from our bank.

Mr. Horace H. Greeley,
200 Broadway, New York City
In account with
The Exercise National Bank of New York
For the month of September, 19—

Sept.	1	Balance	$1,387.64	
		Deposits		
	2		450.00	
	9		990.75	
	11		536.00	
	14		675.00	
	19		847.75	
	27		389.65	
		Total credits		$5,276.79
		Total Charges deducted		2,783.40
		October 1, 19— Balance		$2,493.39

The Bank inclosed the following adding machine slips, corresponding to the sixteen vouchers returned.

57.00
100.00
75.00
101.50
98.00
14.70
3.00
3.20
931.00
425.00
25.00
200.00
75.00
400.00
250.00
25.00
2,783.40

Prepare reconciliation statement.

35. On September 15, 19—, we issuea a two-months' note in favor of Howard Ely & Son for $620.00, payable at The Exercise National Bank. Write the note, which was No. 84.

36. Show the entry on our books for the note referred to in Exercise 35, above.

37. Show the entry in the books of Howard Ely & Son, for the note referred to in Exercise 35, above.

38. Show the record in our bill book for the note referred to in Exercise 35, above.

39. Show the record in the bill book of Howard Ely & Son, for the note referred to in Exercise 35, above.

40. On September 1, 19— we issued our one-month note, No. 101, for $1,000.00, with interest at 6%, in favor of The Bretton Mills, payable at our bank. Write the note.

41. Show the entry for the note referred to in Exercise 40, above, on our books.

42. Show the entry on the books of The Bretton Mills, for the note referred to in Exercise 40, above.

43. Show the record in our bill book for the note referred to in Exercise 40, above.

44. Show the record in the bill book of The Bretton Mills, for the note referred to in Exercise 40, above.

45. On September 19, 19—, we received a six-months' note, No. 89, for $1,500.00, with interest at 5%, from Jack Saunders, payable at the First National Bank. Write the note.

46. Show the entry on our books for the note referred to in Exercise 45, above.

47. Show the entry in the books of Jack Saunders, for the note referred to in Exercise 45, above.

48. Show the record in our bill book for the note referred to in Exercise 45, above.

49. Show the record in the bill book of Jack Saunders, for the note referred to in Exercise 45, above.

50. On October 1, 19—, we received a 90-day note, No. 258, for $750.00, with interest at 6%, from John Reynolds, payable at the New Zealand Bank. Write the note.

51. Show the entry on our books for the note referred to in Exercise 50, above.

52. Show the entry in the books of John Reynolds, for the note referred to in Exercise 50, above.

53. Show the record in our bill book for the note referred to in Exercise 50, above.

54. Show the record in the bill book of John Reynolds, for the note referred to in Exercise 50, above.

55. On October 15, 19—, we drew a sight draft on Paul Jones, 240 Fifth Avenue, New York City, No. 14, for $550.00. Write the draft.

56. Show the entry on Paul Jones' books (Exercise 55, above), after the draft has been presented and paid by him.

57. Show the entry on our books (see Exercise 55, above), when the bank had credited our account with the proceeds, if the collection charges amounted to $2.50.

58. On October 10, 19—, Timothy Lane drew a sight draft on us, No. 21, for $600.00. Write the draft.

59. Show the entry on our books (see Exercise 58, above), after the draft has been presented and paid by us.

60. Show the entry on Timothy Lane's books (see Exercise 58, above), when the bank had credited his account with the proceeds, if the collection charges amounted to $2.75.

PART VII

SINGLE ENTRY

Single entry bookkeeping, the subject matter of this division, is not nearly as popular as double entry. It is presented in order to acquaint the student with the method of recording transactions employed by many small retail merchants.

The student who is familiar with the subject matter of Part I of this book should have no difficulty in keeping what are known as single entry books. Essentially, single entry bookkeeping is partial or incomplete double entry bookkeeping. Inasmuch as there may be any number of stages of incompletion, it is difficult to define practical single entry bookkeeping. It will be easier to frame a definition after observing what single entry bookkeeping is really like. So, therefore, let us illustrate the difference between single entry and double entry bookkeeping by studying the rules for Journalizing as applied to a few typical business transactions:

The Transaction.	Double Entry Results.		Single Entry Results.	
	Debit.	Credit.	Debit.	Credit.
(1) John Doe, Proprietor, began business by investing cash	Cash a/c	John Doe, Prop. a/c		John Doe, Prop. a/c
(2) Paid rent of store in cash	Expense a/c	Cash a/c		
(3) Bought merchandise for cash	Mdse. a/c	Cash a/c		
(4) Sold merchandise for cash	Cash a/c	Mdse. a/c		
(5) Bought merchandise of Brown & Co., on account	Mdse. a/c	Brown & Co. a/c		Brown & Co. a/c
(6) Paid Brown & Co., in full	Brown & Co. a/c	Cash a/c	Brown & Co. a/c	
(7) Sold Smith & Son, merchandise on account.	Smith & Son a/c	Mdse. a/c	Smith & Son a/c	
(8) Received payment from Smith & Son in full of account	Cash a/c	Smith & Son a/c		Smith & Son a/c
(9) Bought merchandise from Lane & Jones on account	Mdse. a/c	Lane & Jones a/c		Lane & Jones a/c
(10) Gave our 30-day note in full of Lane & Jones' a/c	Lane & Jones a/c	Notes Payable a/c	Lane & Jones a/c	

The Transaction.	Double Entry Results.		Single Entry Results.	
	Debit.	Credit.	Debit.	Credit.
(11) Paid our note in full of account	Notes Payable a/c	Cash a/c		
(12) Sold merchandise to Zinn & Zinn, on account	Zinn & Zinn a/c	Mdse. a/c	Zinn & Zinn a/c	
(13) Received Zinn & Zinn's 30-day note in full of account	Notes Receivable a/c	Zinn & Zinn a/c		Zinn & Zinn a/c
(14) Received payment from Zinn & Zinn, for their note due today	Cash a/c	Notes Receivable a/c		

The single entry Journal, which would record the above transactions numbered 1 to 14, inclusive, would appear as follows:

October 19—

		1							
		John Doe, Prop.	Cr.				5	000	00
		John Doe began the provision business investing cash $5,000							
		5							
		Brown & Co.	Cr.					475	00
		Bot. mdse. on acct.							
		6							
		Brown & Co.	Dr.					475	00
		Paid Brown & Co. in full							
		7							
		Smith & Sons	Dr.					250	00
		Sold Smith & Sons mdse. on acct.							
		8							
		Smith & Sons	Cr.					250	00
		Recd. payment from Smith & Sons in full of acct.							

	9				
	Lane & Jones	Cr.		460	00
	Bot mdse. from Lane & Jones on acct.				
	10				
	Lane & Jones	Dr.		460	00
	Gave Lane & Jones our 30-day note in full of acct.				
	12				
	Zinn & Zinn	Dr.		375	00
	Sold mdse. to Zinn & Zinn on acct.				
	13				
	Zinn & Zinn	Cr.		375	00
	Recd. Zinn & Zinn's 30-day note in full of acct.				

Observations.—(1) The student should observe that, as a result of the first transaction, while in double entry Cash a/c was debited and a person's account credited, in single entry there was no debit and just one credit, that to a *person's* account.

(2) It should be observed that, as a result of the second transaction, double entry bookkeeping resulted in a debit to Expense a/c and a credit to Cash a/c, but that in single entry neither a debit nor a credit entry was made.

(3) The third transaction resulted in debits and credits, according to the rules of double entry bookkeeping, but the single entry record shows no entry. A similar observation is true of the fourth transaction.

(4) The fifth transaction resulted in debits and credits as shown by the record in the double entry division, but in single entry only a credit resulted and that to a *person's* account.

Conclusion.—On the basis of the foregoing analysis, and on the observations of the results of the other transactions shown on pages 413–414, it is evident that single entry bookkeeping differs in at least two particulars from double entry bookkeeping, namely:

(*a*) In that whereas every transaction, when treated according to the rules of double entry bookkeeping, results in debits and credits of equal amount, single entry bookkeeping appears to result in either *a* debit or *a* credit, *or* in neither a debit nor a credit.

(*b*) In that whereas, in double entry bookkeeping, debits and credits appear to personal and impersonal accounts, single entry debits and credits appear to be made only to personal accounts.

As a matter of fact, single entry bookkeeping does contemplate the keeping of accounts with persons only. Thus, if we had access to a single entry Ledger, we would find that it consists of accounts with people only, that is, with debtors and creditors and with the proprietor. The method of recording single entry transactions, so that the proper debits and credits to personal accounts shall be obtained, constitutes a very important part of single entry bookkeeping.

The student should observe that only one Journal column was employed, and that the indication of debiting and crediting was accomplished by means of labeling the title of the separate account, as shown.

In practical single entry bookkeeping, there is a tendency to employ the books, forms and procedure common to double entry bookkeeping, though the Journal form illustrated above is still taught to some extent. The transactions of a concern which employs so-called single entry bookkeeping would be recorded in a Journal utilizing both money columns, and in a Cash Book, one column of which on each side would be employed for the purpose of posting, whereas the other money column on both sides would be used for memorandum cash only, that is, for cash receipts and expenditures which did not affect personal accounts, and which, accordingly, were not to be posted to the Ledger.

As a practical illustration of single entry bookkeeping, study the entries resulting from the following transactions:

19—

June 1 Nelson Reed began business by investing Cash $5,000.00, Merchandise $3,000.00, Furniture and Fixtures, $450.00 and Horses and Wagons $1,000.00

2 Paid rent, $100.00; bot. stationery, $18.00

3 Bot. mdse. for cash, $850.00

4 Bot. mdse. for cash, $375.00

5 Sold mdse. for cash, $675.00

6 Sold mdse. for cash, $700.00

6 Paid salaries, $72.00

8 Bot. mdse. from Willis Bros., $990.00, on acct.

9 Bot. mdse. from James Simpson, $1,500.00, on acct.

10 Sold M. Santon, mdse. $1,800.00, on acct.

11 Sold Bartow Bros., mdse. $2,000.00, on acct.

12 Bot. mdse. from Willis Bros., $1,200.00, on acct.

13 Bot. mdse. from Orkin Bros., $1,350.00, on acct.

13 Sold M. Santon, mdse. $1,000.00, on acct.

13 Paid salaries, $72.00

15 Recd. from M. Santon, $1,000.00 cash on acct.

16 Paid Willis Bros., $1,500.00 cash on acct.

(Continued on page 418)

JOURNAL

June 1, 19—

Nelson Reed, Prop. Began business by investing Cash $5,000.00 Merchandise 3,000.00 Furniture and Fixtures 450.00 Horses and Wagons 1,000.00	1				9	450	00
8							
Willis Bros. Bot. mdse. on acct.	2					990	00
9							
James Simpson Bot. mdse. on acct.	3				1	500	00
10							
M. Santon Sold mdse. on acct.	4	1	800	00			
11							
Bartow Bros. Sold mdse. on acct.	5	2	000	00			
12							
Willis Bros. Bot. mdse. on acct.	2				1	200	00
13							
Orkin Bros. Bot. mdse. on acct.	6				1	350	00
13							
M. Santon Sold mdse. on acct.	4	1	000	00			
17							
Thomas Arnold Bot. mdse. on acct.	7				1	000	00
18							
Bartow Bros. Sold mdse. on acct.	5	1	500	00			
19							
Bartow Bros. Recd. their 30-day note on acct.	5				1	500	00
20							
Brown Bros. Sold mdse, 2/10, n/30	8	1	200	00			
22							
Orkin Bros. Gave them our 30-da. note on acct.	6	1	000	00			
24							
Willis Bros. Gave them our 15-da. note on acct.	2		500	00			
27							
Brown Bros. Recd. their 30-day note on acct.	8					500	00

CASH RECEIPTS

				To be Posted	Not to be Posted
19—					
June	1	Nelson Reed, Prop., Investment			5 000 00
	5	Cash sales			675 00
	6	Cash sales			700 00
	15	M. Santon Recd. on acct	4	1 000 00	
	23	Bartow's note discounted, dis. $6.25			1 493 75
	25	M. Santon Recd. on acct.	4	500 00	
	29	Discounted our 30-day note at bank, discount, $20.00			3 980 00
		Total of cash receipts to be posted		1 500 00	1 500 00
					13 348 75

June 17 Bot. mdse. from Thomas Arnold, $1,000.00, on acct.
18 Sold Bartow Bros., mdse. $1,500.00, on acct.
19 Recd. a 30-day note for $1,500.00 from Bartow Bros. on acct.
20 Sold Brown Bros. mdse., 2/10, n/30, $1,200.00
20 Paid salaries, $72.00
22 Gave Orkin Bros. our 30-day note for $1,000.00 on acct.
23 Discounted Bartow Bros.' note of the 19th.
24 Gave Willis Bros. our 15-day note for $500.00 on acct.
25 Recd. $500.00 cash from M. Santon, on acct.
26 Paid for shoeing horses, $7.00.
27 Recd. a 30-day note from Brown Bros. for $500.00, on acct.
27 Paid salaries, $72.00
29 Gave James Simpson $800.00 cash on acct.
29 Discounted our own 30-day note for $4,000.00 at bank
30 Paid telephone bill $10.00; insurance premium $56.00. Mr. Reed drew for private use $50.00

Merchandise Inventory is valued at $3,500.00; furniture and fixtures and horses and wagons have each depreciated 10%.

CASH DISBURSEMENTS

					To be Posted			Not to be Posted	
19—									
June	2	Expense	Rent $100 Sta. $18.00					118	00
	3	Cash Purchases	Bot. mdse. for cash					850	00
	4	Cash Purchases	Bot. mdse. for cash					375	00
	6	Expense	Paid salaries					72	00
	13	Expense	Paid salaries					72	00
	16	Willis Bros.	Paid on account	2	1	500	00		
	20	Expense	Paid salaries					72	00
	26	Expense	Pd. for shoeing horses					7	00
	27	Expense	Paid salaries					72	00
	29	James Simpson	Paid on account	3		800	00		
	30	Expense	Paid telephone bill $10.00, insurance premium $56.00					66	00
	30	Nelson Reed, Prop.	Drew for private use	1		50	00		
		Total of cash disbursements to be posted			2	350	00	2 350	00
		Balance						9 294	75
								13 348	75

Obviously enough, inasmuch as single entry bookkeeping does not require the equality of debits and credits, no Trial Balance can be taken. A Proof of Posting, however, is available. Its object is to ascertain whether or not every debit and credit in the original entry books, i.e., in this illustration, in the Journal and the Cash Book, though in other cases a Sales Book and Purchase Book might also be included, was correctly posted to the Ledger. To illustrate, let us consider the following Ledger accounts, which resulted from the posting of the transactions recorded in the Journal and Cash Book illustrated above.

Nelson Reed, Prop.

19—							19—						
June	30	C.B.	2		50	00	June	1	J	1	9	450	00

Willis Bros.

19—						19—					
June	16	C.B.	2	1 500	00	June	8	J	1	990	00
	24	J	1	500	00		12	J	1	1 200	00

James Simpson

19—						19—					
June	29	C.B.	2	800	00	June	19	J	1	1 500	00

M. Santon

19—						19—					
June	10	J	1	1 800	00	June	15	C.B.	1	1 000	00
	13	J	1	1 000	00		25	C.B.	1	500	00

Bartow Bros.

19—						19—					
June	11	J	1	2 000	00	June	19	J	1	1 500	00
	18	J	1	1 500	00						

Orkin Bros.

19—						19—					
June	22	J	1	1 000	00	June	13	J	1	1 350	00

Thomas Arnold

						19—					
						June	17	J	1	1 000	00

Brown Bros.

19—						19—					
June	20	J	1	1 200	00	June	27	J	1	500	00

The following is a summary of all the Ledger accounts:

Summary of All Ledger Accounts

June 30, 19—

L.F.					
1	Nelson Reed, Prop.	50	00	9,450	00
2	Willis Bros.	2,000	00	2,190	00
3	James Simpson	800	00	1,500	00
4	M. Santon	2,800	00	1,500	00
5	Bartow Bros.	3,500	00	1,500	00
6	Orkin Bros.	1,000	00	1,350	00
7	Thomas Arnold			1,000	00
8	Brown Bros.	1,200	00	500	00
		11,350	00	18,990	00

The Proof of Posting, based upon the foregoing illustration, is as follows:

Proof of Posting

June 30, 19—

			Debits	Credits
		Totals, Journal P. 1	9,000.00	17,490.00
		Total, receipt side of Cash Book		1,500.00
		Total, disbursement side of Cash Book	2,350.00	
		Totals in books of original entry	11,350.00	18,990.00

The student should observe that the total of all debits posted from the original entry books is exactly equal to the total of Ledger debits, as shown by the Proof of Posting; also, that the credits correspond similarly.

As the ultimate object of all bookkeeping is to enable the proprietor to ascertain his condition and progress, let us now see whether or not single entry bookkeeping affords information along these lines.

By inventorying the merchandise, fixtures and other properties, we obtain all the assets which are not in the books. By adding to the liabilities shown in the books the notes payable outstanding, which should be listed in some memorandum book, a full list of liabilities is also obtained. By comparing the assets with the liabilities, the present

capital can be found. The difference between the present capital and the net investment of the proprietor, as shown by his Ledger account, determines the net profit or net loss for the period under review. This information is often shown in statements of the following form:

Statement of Assets and Liabilities

June 30, 19—

Assets:			*Liabilities:*			
Cash on hand		$9,294.75	Accounts Payable:			
Accounts Receivable:			Willis Bros.	$190.00		
M. Santon	$1,300.00		James Simpson	700.00		
Bartow Bros.	2,000.00		Orkin Bros.	350.00		
Brown Bros.	700.00	4,000.00	T. Arnold	1,000.00	$2,240.00	
Notes Receivable		500.00	Notes Payable		5,500.00	
Furniture and Fixtures		405.00				
Horses and Wagons		900.00	Total Liabilities		$7,740.00	
Merchandise Inventory		3,500.00				
			Nelson Reed, Prop., Net Capital		10,859.75	
		$18,599.75			$18,599.75	

Statement of Profit

June 30, 19—

Net Capital, as shown by Statement of Assets and Liabilities	$10,859.75
Net Investment of proprietor, as per Ledger account	9,400.00
Net Profit	$1,459.75

After ascertaining what the net profit or net loss for a period is, it is necessary to adjust the proprietor's account in the Ledger, so that it shall show the net capital of the business as of the closing date. For this purpose, a Journal entry is made, as follows:

	June 30, 19—				
	Nelson Reed, Prop.			1,459	75
	Net Profit from June 1 to June 30, 19—, as shown by the Statement of Profit, credited to Mr. Reed's account.				

After posting the foregoing entry, Mr. Reed's account would appear as follows:

Nelson Reed

19—						19—					
June	30	C. B.	2	50	00	June	1	Investment	J. 1	9,450	00
	30	Net Capital		10,859	75		30	Net Profit	2	1,459	75
				10,909	75					10,909	75
						July	1	Net Capital		10,859	75

It is now clear that the balance of Mr. Reed's account corresponds with the net capital shown by the Statement of Assets and Liabilities, previously prepared.

	June 30, 19—					
	I, Nelson Reed, have this day decided to convert my books from Single Entry to Double Entry. My net capital is disclosed by the following balances:					
2	Cash	Balance on hand	9,294	75		
✓	M. Santon	Due us	1,300	00		
✓	Bartow Bros.	Due us	2,000	00		
✓	Brown Bros.	Due us	700	00		
2	Notes Receivable	As per list	500	00		
3	Furniture and Fixtures	As per inventory	405	00		
4	Horses and Wagons	As per inventory	900	00		
5	Merchandise	As per inventory	3,500	00		
6	Notes Payable	As per list			5,500	00
✓	Willis Bros.	Due them			190	00
✓	James Simpson	Due him			700	00
✓	Orkin Bros.	Due them			350	00
✓	T. Arnold	Due him			1,000	00
✓	Nelson Reed, Prop.	Net Capital			10,859	75
	All of the foregoing balances have been posted to the Ledger, as indicated, except the accounts which are checked. These items were not posted because they were already in the Ledger.					

Changing to Double Entry.—It has already been pointed out that single entry bookkeeping is not universally popular, and that, where

employed, its use is restricted to a very few lines of retail businesses. The accountant, rather than the bookkeeper, is frequently called upon to change incomplete double entry books, or single-entry books, to double-entry books, and so it is necessary for the student to obtain some idea as to the necessary procedure. Though the subject matter involved is more suitable for advanced work, it is nevertheless desirable that a brief discussion be included here.

If the books of Mr. Reed, presented above, were to be converted into double entry books, it would simply be necessary to add to the Ledger the accounts shown in the Statement of Assets and Liabilities which are not personal accounts, and which are, therefore, not already in the Ledger. The Journal entry shown on page 423 accomplishes this object.

It should be evident to the student that, after posting, as has been indicated above, the old Ledger would be in balance, i.e., the total of all accounts having debit balances would be exactly equal to the total of all accounts having credit balances. However, though the equivalence is obvious, it is customary to take what is known as a Proof Trial Balance, for the purpose of making assurance doubly sure. Such a Proof Trial Balance is herewith submitted:

Proof Trial Balance

June 30, 19—

Cash	$9,294.75	
M. Santon	1,300.00	
Bartow Bros.	2,000.00	
Brown Bros.	700.00	
Notes Receivable	500.00	
Furniture and Fixtures	405.00	
Horses and Wagons	900.00	
Merchandise	3,500.00	
Notes Payable		$5,500.00
Willis Bros.		190.00
James Simpson		700.00
Orkin Bros.		350.00
T. Arnold		1,000.00
Nelson Reed, Prop.		10,859.75
	$18,599.75	$18,599.75

The books of Mr. Nelson Reed have now become double entry books. Future transactions will be recorded in the old Journal and in the old Cash Book, which are exactly of the same form as the corresponding

simple double entry books. A Sales Book and a Purchase Book may, of course, be added, without introducing disturbing factors.

The change from single entry to double entry, described above, has been reduced to its simplest form. There are other methods whereby such single entry books are converted into double entry books, but this information must be obtained from specialized accounting books, such as " Elements of Accounting," for example.

SUMMARY

It should now be clear to the student that single entry bookkeeping does not differ considerably from double entry bookkeeping. By means of single entry bookkeeping, as has been shown, the condition and progress of the business may be ascertained, provided the book information is supplemented by data obtained from outside sources. The rules of double entry bookkeeping, in so far as they affect debiting and crediting, are applicable to single entry, if personal accounts only are considered. It is for this reason that the rule for journalizing in single entry is sometimes stated as follows:

Ascertain debits and credits according to the rules of double entry; record debits and credits in so far as they affect personal accounts only.

The practicing accountant does not favor single entry bookkeeping. The results of his experience condemn the employment of this type of bookkeeping. He knows that fraud is much more easily concealed through the medium of single entry books. He also knows that the additional work entailed by double entry bookkeeping is slight and that the advantages, such as statistical and cost information obtainable through the medium of double entry, far outweigh the disadvantages due to the slightly increased labor involved.

Despite the attitude of the public accountant, some business men, though in ever decreasing number, continue to employ single entry books. Among the business houses which do continue to employ this kind of bookkeeping, there may be mentioned retail grocers, provision dealers, fruit dealers, etc.

The student is interested not only in single entry bookkeeping as such, but also in the method of converting single entry books into double entry books. The steps which are required to bring about the change are as follows:

(*a*) Preparation of a Statement of Assets and Liabilities.

(*b*) Preparation of a Statement of Profit or Loss.

(*c*) Addition to the proprietor's account of the net profit, or the deduction from his account of the net loss, by means of a suitable Journal entry.

(*d*) The actual change by means of a Journal entry, which adds to the old Ledger the asset and liability items not previously there.

Questions

1. What is single entry bookkeeping?
2. How does it differ from double entry bookkeeping?
3. What type of concerns employ single entry books?
4. What is meant by proof of posting?
5. Compare the proof of posting with the trial balance.
6. How may the net capital be found when single entry books are employed?
7. How may the net profit or net loss be found on the basis of single entry bookkeeping?
8. Tell how to change single entry books to double entry books.
9. State some of the advantages of double entry bookkeeping not possessed by single entry bookkeeping.
10. How may double entry books be changed to single entry books?

Exercises

1. Enter the transactions of Exercise 20*D*, page 147, in single entry books. Take a Proof of Posting, and prepare a Statement of Assets and Liabilities. Also find the net profit or net loss. (Mdse. Inventory: $5,528.00.)

2. Enter the transactions of Exercise 26*D*, page 149, in single entry books. Take a Proof of Posting and prepare a Statement of Assets and Liabilities. Also find the net profit or net loss.

3. Enter the transactions of Exercise 26*B*, page 128, in single entry books. Take a Proof of Posting and prepare a Statement of Assets and Liabilities. Also find the net profit or net loss.

PART VIII

MISCELLANEOUS TOPICS

The subjects included in this division are intended as a summary of important topics not previously presented in the text.

MISCELLANEOUS TOPICS

In this division of the book, it is planned to present certain miscellaneous topics which have not been included previously, or to which casual reference only was made. Though it is impossible, within the scope of any single test, to bring together all possible business transactions which occur in actual practice, it is nevertheless felt that some few additional topics might advantageously be shown here.

I. BUILDING CONTRACTS

The work of the building contractor is so specialized that an entire volume might readily be written on the subject. It is now intended to present just a few topics connected with the general subject of building contracts. For example, we shall discuss, both from the point of view of the principal and of the contractor, the following items:

(*a*) The entering into the contract.
(*b*) Allowance for extras.
(*c*) Payments on account of contract.
(*d*) Subcontracting.

A. Entering into the Contract

Let us assume that Thomas H. Brown wishes to build a dyehouse in connection with his mill. Plans and specifications are drawn up and a number of contractors are invited to submit estimates or bids for the work. As a result of such competitive bids, assume that the Arthur H. Lane Construction Company was awarded the contract for $60,000.00. At this time, it is customary to set up entries of the following form:

(1) On the books of the principal:

Dyehouse Contract......................	$60,000.00	
Arthur H. Lane Construction Co., Contractor		$60,000.00

(2) On the books of the contractor:

Thomas H. Brown, Owner................	$60,000.00	
Contracts.............................		$60,000.00

B. Allowance for Extras

If any extra work was ordered, entries are made in exactly the same form as those shown in connection with the original contract. Deductions consequent upon elimination of some of the work originally contracted for, or as a result of substitution of cheaper material, necessitates entries reversing those shown in connection with the original contract.

C. Payments on Account of Contract

Payments are usually made as a result of a requisition issued by the contractor, approved by the architect or supervising engineer, and forwarded to the principal. Such requisitions are not usually paid in full, because most contracts stipulate that a percentage, varying usually from 10 to 15%, shall be retained by the principal until some time after the entire contract has been satisfactorily completed. Thus, if the Arthur H. Lane Construction Co. had submitted a requisition for $20,000.00, which had been approved by the architect, and if, according to the terms of the contract, 10% was to be retained by the principal, the following entries would result:

(1) On the books of the principal:

Arthur H. Lane Construction Co., Contractor	$18,000.00	
Cash..................................		$18,000.00

(2) On the books of the contractor:

Cash..................................	$18,000.00	
Thomas H. Brown, Owner..............		$18,000.00

The entries shown in the foregoing are of the simplest kind. In many cases the entries would show that $20,000.00 worth of work had been completed, but that $2,000.00 had been reserved. Such entries, and other related matter, cannot be discussed in this text.

D. Subcontracting.

The general contractor for the building very frequently sublets portions of the work, if not all of it, to other contractors. Assuming that the Arthur H. Lane Construction Co. entered into such subcontracts, entries of the following form would then be in order:

(1) On the books of the general contractor:

Subcontracts..........................	$———	
......................., Subcontractor		$———

(2) On the books of the subcontractor:

Arthur H. Lane Construction Co., Contractor	$———	
Contracts.............................		$———

II. CONTINGENT LIABILITIES

In the footnote to page 63 of the text, a casual reference was made to the contingent liability which arises as a result of discounting notes receivable. The contingent liability referred to exists in virtue of the fact that, before we can discount such notes, we must indorse them. This indorsement, among other things, signifies that, in the event of the maker's failure to redeem the note at maturity, we shall do so. Accordingly, until the maker does redeem his promise, we are contingently responsible for the payment of the note. The contingency, as must be quite clear, is to be found in the possibility that we may be called upon to pay the note. Accountants provide for the recording of such contingent liabilities in the manner illustrated by the following entries:

(1) When the note is first received by us:

Notes Receivable..........................	$1,000.00	
Customer..............................		$1,000.00

(2) When the note is discounted by us:

Cash..................................	$990.00	
Discount on Notes.........................	10.00	
Notes Receivable Discounted...........		$1,000.00

Observe that instead of crediting Notes Receivable account we opened a new account which remains on the books until the contingent liability has disappeared.

If, prior to the maturity of the note, a Balance Sheet is prepared, the contingent liability due to discounted notes would be shown as follows:

Notes Receivable..........................	$16,500.00	
Less discounted notes not yet due........	9,500.00	$7,000.00

(3) If the maker redeems his note at maturity, our contingent liability disappears, a fact which is clearly expressed by means of the following entry:

Notes Receivable Discounted.............	$1,000.00	
Notes Receivable.......................		$1,000.00

We discussed indorser's liability, a form of contingent liability, on page 246. Other contingent liabilities are met with in business, but these cannot be discussed in this text.

III. PROTEST AND DISHONOR

When the maker of a promissory note fails to meet his obligation at maturity, the note is said to be dishonored. It is quite customary to draw up a legal document reciting the fact that the note was duly presented at maturity, and that payment was not made. This statement is technically known as protest. Thus, a note may be both dishonored and protested.

(1) We already know that when a note is received from a customer, an entry of the following form is in order:

Notes Receivable	$1,000.00	
Customer		$1,000.00

(2) When this note is dishonored, it is sometimes deemed desirable to take it from the Notes Receivable account and put it into a special account, a step which is accomplished by means of the following entry:

Dishonored Notes Receivable	$1,000.00	
Notes Receivable		$1,000.00

(3) As some expense is usually incurred in connection with dishonor and protest, the following entry records the usual situation:

(*a*) For the protest fees:

Customer	$1.50	
Cash		$1.50

(*b*) For the note:

Protested Notes Receivable	$1,000.00	
Notes Receivable		$1,000.00

Sometimes an entry is made whereby the note and the protest fees are both charged to the Protested Notes account, thus:

Protested Notes Receivable	$1,001.50	
Notes Receivable		$1,000.00
Cash		1.50

(4) If a note which had previously been discounted by us was protested by the bank at which it was discounted, the result would be that the bank would deduct from our cash account the amount of the note plus protest fees, a fact which would be expressed in our books by means of the following entry:

Protested Notes Receivable	$1,001.50	
Cash		$1,001.50

But if we had shown our contingent liability at the time when the note was discounted, the entry at the time of protest would be as follows:

(*a*) Protested Notes Receivable............	$1,001.50	
Cash............................		$1,001.50
(*b*) Notes Receivable Discounted..........	$1,000.00	
Notes Receivable..................		$1,000.00

The first of the foregoing entries was for the purpose of setting up the protested note among our assets. The second entry was made so as to remove the contingent liability because, having met our contingent liability, it no longer existed as such.

Though such a procedure is hardly necessary, it may be advisable to show the entry for the foregoing transaction in the books illustrated in Part III.

(1) In the Cash Book, when the bank charges the note, plus protest fees, against our account:

Cash Disbursements

	L.F.	Acct. to be Debited.	Explanation.	Accounts Payable.	Dis. on Purchases.	Net.	General.
		Protested Notes Receivable	H. C. Long's note due today $1,000.00; protest fees $1.50				1,001 50

(2) In the Journal:

Accounts Payable.	General.	L.F.		L.F.	General.	Accounts Receivable.
			Date			
	1,000 00		Notes Rec. Discounted			
			Notes Receivable		1,000 00	
			Contingent liability on H. C. Long's note, due today, extinguished; note protested			

Should the maker of the note finally redeem his note, including the protest fees, a Cash Book entry would be made equivalent to the following Journal entry:

Cash	$1,001.50	
Protested Notes Receivable		$1,001.50

IV. RENEWAL OF NOTES

We know that promissory notes are supposed to be met at their maturity. It sometimes happens, however, that the maker of such notes finds it impossible to meet his obligation, and in such cases he may possibly arrange for the renewal of the note. We shall consider four cases:

A. The Renewal of Our Note

Let us assume that we keep the books of Messrs. Brown & Thomas and that our $1,000.00 note, in favor of Thomas F. Blaine, due today, is renewed by us. At this time it is customary for us to receive back the old note and to issue a new one in its stead. The entry is therefore:

Notes Payable	$1,000.00	
Notes Payable		$1,000.00

B. The Renewal of a Customer's Note

Let us assume that we hold Joseph K. Faile's $2,500.00 note in our favor due today, and that we renew it. In return for the old note, Mr. Faile would give us his new note for the same amount and our entry would then be:

Notes Receivable	$2,500.00	
Notes Receivable		$2,500.000

C. The Renewal of Our Interest-bearing Note

Let us assume that in Case A, above, our note bore interest, so that at maturity we were to pay the face of the note, $1,000.00, plus interest of, say, $20.00, and that this note was renewed. The usual procedure would be for us to pay the interest then due in cash, and to issue a new interest-bearing note for $1,000.00. The entries at this time would be:

(1) Interest on Notes	$20.00	
Cash		$20.00
(2) Notes Payable	$1,000.00	
Notes Payable		$1,000.00

D. The Renewal of a Customer's Interest-bearing Note

Assume that the note in Case B, above, bore interest, and that when we renewed it for Mr. Faile, interest amounting to $37.50 was due. In accordance with the usual procedure in such cases, Mr. Faile will pay us the amount of interest earned in cash, and give us a new interest-bearing note to redeem the old one. The entries for the transaction are as follows:

(1) Cash..............................	$37.50	
Interest on Notes..................		$37.50
(2) Notes Receivable......................	$2,500.00	
Notes Receivable..................		$2,500.00

V. "KITING"

"Kiting" is a term applied to a certain class of transactions which, ordinarily, are frowned upon by reputable business men. Consider these two illustrations:

(*a*) Exchanged checks with Samuel F. Duncan, $500.00.

(*b*) Exchanged my two-months' note with Samuel F. Duncan for his two-months' note, $500.00.

Why such changes are made cannot be entered into here. Sometimes, but very rarely, the motive may be a legitimate one.

The entries for the foregoing transactions, in our books, would be as follows:

(*a*) Cash..............................	$500.00	
Cash..............................		$500.00

Corresponding to this Journal entry, in actual practice there would be two Cash Book entries, one on the receipt side and one on the disbursement side. Instead of posting the entries, they might be checked (√). If posted they would be carried to an Exchange Check account, which would appear as follows:

EXCHANGE CHECKS

Date	S. F. Duncan C. B. 15	$500	00	Date	S. F. Duncan C. B. 14	$500	00

(*b*) Accommodation Notes Receivable......	$500.00	
Accommodation Notes Payable.......		$500.00

The foregoing entry, though it correctly records the transaction, is not frequently met with in practice. The following is probably more favored, although the great majority of concerns indulging in this form of kiting would probably content themselves with an entry charging Notes Receivable account and crediting Notes Payable account:

(1) Accommodation Account..............	$500.00	
Notes Payable......................		$500.00
(2) Notes Receivable......................	$500.00	
Accommodation Account............		$500.00

The Accommodation account would appear as follows:

ACCOMMODATION ACCOUNT

Date	S. F. Duncan (note) J27	$500	00	Date	S. F. Duncan (note) J27	$500	00

VI. ACCOUNTS RECEIVABLE ASSIGNED

We have already learned that business men borrow money by discounting their own notes and also by discounting customers' notes. During comparatively recent times there has developed an organization of private bankers who lend money to business men on the security of accounts receivable. Some banks also lend on such security, but the practice is usually associated with private bankers and brokers.

The procedure, simply stated, is as follows: Brown and Jones are in business; they need money and so discount their own paper at their bank. Let us assume that they then need more money than the bank is willing to lend them. They may secure an accommodation by accepting an advance from the private bankers before referred to on the security of their "open book accounts," that is, on their accounts receivable. If the accounts receivable amount to $10,000.00, it is quite possible that a private banker may be willing to advance 75 or 80% of this amount. The charge is usually higher than the current interest rate. What concerns us most in the present connection is the record which is required when Brown and Jones assign their account. When cash is received from the bankers, an entry of the following form is in order:

Cash..................................	$———	
Loans Payable........................		$———

Another entry is in order for the purpose of clearly showing just which accounts have been assigned because it must clearly be understood that

the accounts no longer belong to Messrs. Brown & Jones. The following entry would accomplish the desired purpose:

Assigned Accounts Receivable.............	$———	
Accounts Receivable....................		$———

Corresponding to this entry, the accounts in the Sales Ledger must be removed to a separate section comprising only such assigned accounts, though it is sometimes customary to label the items which have been assigned by some appropriate symbol, instead of making the physical transfer.

When collections are made from the assigned accounts, it is usual, according to the terms of the agreement between the banker and the borrower, to make an immediate remittance to the lender. Thus, let us assume that $500.00 was received from some customer whose account had been assigned and that the amount so received had been entered in the usual way, and then deposited. A check would then be drawn in favor of the bankers for an amount representing their loan on account of these assigned accounts, plus their charges. If they had advanced 80%, and if their charges amounted to $7.00, a check for $407.00 would be drawn and entries of the following form would result:

(*a*)	Loans Payable........................	$400.00	
	Interest on Loans....................	7.00	
	Cash.............................		$407.00
(*b*)	Accounts Receivable..................	$500.00	
	Assigned Accounts Receivable........		$500.00

What has been outlined above does not cover the entire field involved in borrowing on assigned accounts, but enough has been presented to enable the student to handle the problem. Other points, such as the legal relation between the banker and the customer whose account has been assigned, assignment with or without notice to the customer whose account has been assigned, etc., must be left for more advanced study.

VII. C. O. D. SALES

Retail stores, and to a lesser extent even wholesale dealers, ship goods to customers " C. O. D." C. O. D. is the commercial abbreviation for " collect on delivery " or, as some business men would say, " cash " on delivery. It signifies that the goods are not to be delivered to the buyer unless he pays for them at the time of delivery. Although

some bookkeepers make no entry for a C. O. D. sale until collection has been effected, and then treat it as a cash sale, accountants favor the keeping of a separate account by means of which to control such sales. Accordingly, when a sale of this kind is made, the customer is charged by entering a debit to the C. O. D. account. When payment has been received or the goods returned, the same account is credited.

The following illustration of such an account should prove almost self-explanatory:

C. O. D.

19—						19—					
May	5	Henry Brown	S. B. 7	$10	00	May	6	Cash	C. B. 10	$10	00
	7	Frank Pierce	S. B. 12	12	50						
		Louis Williams	S. B. 13	8	00		8	Return	J. 5	8	00
	9	Ernest K. Green	S. B. 18	14	25		9	Cash	C. B. 12	14	25

The student will readily observe that there has been no return as yet from the Frank Pierce sale. Possibly Frank Pierce was not in when the goods were delivered, or possibly his address is out of town, so that the goods were intrusted to an express company which has not yet reported. Louis Williams returned the merchandise sent him for reasons which may be ascertained by consulting the sales slip returned to us. The other two sales were paid for as indicated.

VIII. INSTALLMENT PURCHASES

Machinery, sometimes office appliances or office furniture, may be purchased on an installment payment plan. By installment payment plan is meant that the goods purchased need not be paid for at once, but in stipulated installments, usually occurring at fixed intervals. It is very frequently provided in such purchase agreements that the ownership of the goods shall continue to repose in the seller until final payment has been made. But such a stipulation does not affect the entries which result as each payment is made. The entry for such payments, depending upon the account to be charged, which may be Machinery and Fixtures, Office Furniture, Office Fixtures or Equipment, is of the following form:

—————— $........

Cash $...

IX. LABOR-SAVING DEVICES

The desire on the part of the modern business man to reduce to a minimum the necessary detail involved in bookkeeping has given rise to the labor-saving devices presented in Part III of this book. A different type of labor-saving results from the employment of various loose-leaf books and forms. Thus, for example, the writing of a Sales Book may be avoided by retaining carbon copies of the invoice and employing such carbon copies as the sales record from which the total of sales may be obtained and from which postings may be made to the various Ledger accounts.

Loose-leaf Ledgers also contribute somewhat to the reduction of bookkeeping labor. Such loose-leaf books consist essentially of a binder into which may be inserted and from which may be removed, as required, Ledger sheets. The advantages of such loose-leaf Ledgers consist in the self-indexing feature, that is, instead of maintaining an index to the various accounts, as is the case with bound Ledgers, the sheets are alphabetically arranged so that accounts are found in the same way as names are located in a telephone directory. Moreover, when an entire Ledger sheet has been filled, a blank sheet may be added without the necessity of making an actual transfer, whereas in bound books an account which completely fills a page may have to be transferred to some other page far removed, and the transfer noted on both pages as well as in the index.

For other advantages of such loose-leaf Ledgers, the student is advised to read books dealing with this special phase of our subject. The advantages of loose-leaf Ledgers are also in about equal measure true of so-called card Ledgers.

The student should not conclude that practically all labor-saving arrangements for recording bookkeeping consist of loose-leaf devices. As an example of a saving, even when the use of the bound book is continued, we may refer to the Purchase Register. This is a book in which entries are made for all purchases and corresponds to the Purchase Book described in Parts II and III of this text. By employing such a form as is about to be illustrated, the bookkeeper saves himself the work of copying the items shown on the purchase invoice. Reference to the invoice may be made either by number, where each invoice, as it is received, is given a consecutive number, or merely by the date on it.

A common form of Purchase Register, corresponding to the Purchase Book shown on page 161, is herewith presented:

PURCHASE REGISTER

Invoice No.	Date Received.	Date of Invoice.	Creditor.	Terms.	Amount.	
	19—	19—				
101	Nov. 2	Oct. 30	Smith & Robbins	On acct.	$6,450	00
102	Nov. 15	Nov. 13	Collins & Co.	On acct.	1,500	00
103	Nov. 20	Nov. 17	Smith & Robbins	On acct.	1,800	00
104	Nov. 29	Nov. 27	Pitman, Jones & Co.	On acct.	1,600	00

PART IX

BUSINESS LABORATORY

The purpose of this exercise is to afford the student an opportunity to make practical application of his knowledge of bookkeeping and business customs.

The purpose of this part of the present book is to furnish the student an opportunity to combine his knowledge of theoretical bookkeeping and accounting with his knowledge of business practice. Accordingly, instead of being presented with a series of transactions, a concise narrative of business occurrences, the student will be furnished with the papers or documents which gave rise to each transaction, and, on the basis of such papers or documents, he will be expected to make the proper book entries. In other words, by aid of the laboratory system, an attempt will be made to bring actual business into the life of the student.

This portion of the work consists, in part, of a series of incoming papers. These papers represent receipts for moneys paid out by our business, invoices received for goods purchased by our business, orders for merchandise, etc.

The student will also find at his disposal the business forms which he is expected to execute as a result of the various transactions. For example, when he receives an order for merchandise, he is expected to prepare an invoice corresponding to the goods actually shipped in response to the order, and then, on the basis of this invoice or a copy of it, to make the necessary book entries. The form of books to be employed is left to the discretion of the instructor.

July 1, 19—

Item 1.—Frank E. Mason has this day engaged in the Flour, Feed, Grain, Produce and General Merchandising business at 45 West 34th Street, New York, and invested cash, $5,000.00, which was deposited in the bank.

> The numbers of the items correspond, in most cases, to incoming forms, which will be found in the packet labeled "Incoming Documents."
>
> The check invested was drawn by Mr. Mason on his private bank account and deposited in the bank.
>
> All moneys and checks received are to be deposited before the close of business each day.
>
> The student should open a bank account, following the procedure outlined in Part VI, page 382.
>
> In order to enable the student to sign for Mr. Mason, let it be

assumed that proper legal authorization, formulated in what is technically known as a *power of attorney*, has been executed in his favor. Accordingly, the student will sign as follows:

FRANK E. MASON,

By______________________________

(Student to insert his own name here.)

Atty.

Have you indorsed the check? Have you made out a deposit slip? Have you had the deposit entered in a pass book? Have you entered the amount of deposit in the check book? Have you entered the investment?

Item 2.—Paid rent for the month of July, in advance, check 1. Have the rent bill receipted. It now becomes a rent receipt. File same.

Item 3.—Draw check 2.

Item 4.—Draw check 3.

Item 5.—Pay this bill by check.

July 2

Item 6.—Record the purchase.

Item 7.—Start a Petty Cash Fund by drawing a check to the order of Petty Cash for $15.00.

July 3

Item 8.—Enter this purchase.

Item 9.—Paid carfares, 35c.

July 6

Item 10.—Make the proper entry.

Item 11.—Draw a check to the order of Cash or Bearer, for $25.00, for Mr. Mason's personal use.

Item 12.—Bought three special delivery stamps and thirty-five two-cent stamps.

July 7

Item 13.—Fill Mr. A. M. Johnson's order. Bill the potatoes at $5.65 per bbl., and the onions at $2.00 per basket, terms, on acct. Prepaid freight in cash, $2.00.

Prices are usually determined by the condition of the market, or on the basis of previous offers or quotations.

Item 14.—Paid out of Petty Cash, carfares and telephone message, 25c.

July 8

Item 15.—Fill the order of Talbot & Sons, received today. The wheat is to be billed at $1.00 per bu., the corn at $.96 per bu, and the flour at $6.00 per bbl., terms, 2/10, n/30. Prepaid drayage on this order by check, $13.40.

Item 16.—Draw a check to the order of Payroll for $30.00. Give $15.00 to Lee Werner, stenographer, for week's salary, and $15.00 to J. J. Doran, bookkeeper, for week's salary.

Item 17.—Paid from Petty Cash, 50c. for 1 doz. pencils and 2 erasers.

July 9

Item 18.—Fill Mr. Edward Moyne's order of July 8. Bill the wheat at $1.00 per bu., and the corn at $.96 per bu., terms 2/10, n/30.

Item 19.—Fill Mr. Dutton's order, received today. The onions are to be billed at $2.00 per basket, terms on acct.

Item 20.—Today's carfares amount to 40c.

July 10

Item 21.—Give W. S. Bishop & Co. a 30-day note, interest at 6%, in full payment of their invoice of the 3d inst., less 2% discount.

Item 22.—Draw a check to pay the sight draft drawn on you by Mr. Simpson for invoice of the 2d inst.

Item. 23.—Tip the elevator man $1.00.

July 11

Item 24.—Draw a check to the order of Petty Cash for $5.50 to reimburse the Petty Cash Fund for disbursements made to date.

(Draw up a petty cash requisition, based upon the form shown on page 393.
Do not forget to journalize the transactions recapitulated on the requisition.)

Item 25.—Record the purchase.

Item 26.—Enter this purchase.[1]

Item 27.—Sold to John Bulwinkel[1] for cash, 10 bags peas at $.80 per bag, 10 bags beans at $.45 per bag, 5 crates white eggs at $.35 a doz. (30 doz. to the crate).

Item 28.—Fill the order of the Harlem Supply House. Bill the peas at $.75 per bag and the beans at $.40 per bag, terms, on acct.

Item 29.—Paid carfares and telephones, 50c.

July 13

Item 30.—Make the proper entry.

Item 31.—Record the purchase.

Item 32.—Paid towel service bill, $1.00, out of Petty Cash.

July 14

Item 33.—Enter this purchase.

Item 34.—Paid carfares, 15c.

[1] Mr. Mason does not wish to keep Ledger accounts for Cash Customers.

July 15

Item 35.—Record the purchase.

Item 36.—Draw a check to the order of Cash for $30.00. Pay the stenographer and bookkeeper each $15.00 for week's salary.

Item 37.—Send a telegram to A. M. Johnson, informing him that we have sent a tracer after his order of July 7, which he has not yet received; prepay the charges, 35c.

July 16

Item 38.—Fill Wiesbecker & Co's. order received today. Bill the cauliflowers at $2.50 per bbl., and the peppers at $2.00 per bbl., terms, on acct.

Item 39.—Paid stationery bill out of Petty Cash, $2.45.

July 17

Item 40.—Fill Mr. Schuster's order of yesterday. Timothy is to be billed at $3.00 per ton, clover at $25.00 per ton and rye straw at $18.00 per ton, terms, on acct.

July 18

Item 41.—Enter the note and check received from Talbot & Son, to balance their account, allowing them discount.

Item 42.—Fill the order of Max Goldstein, received today. The onions are to be billed at $2.00 per basket, turkeys at $.25 per lb., weight 150 lbs., broilers at $.27 per lb., weight 45 lbs., peppers at $2.00 per bbl., and eggs at $.35 per doz. (30 doz. eggs to the crate), terms, on acct.

Item 43.—Carfares amount to 35c.

July 20

Item 44.—Record the purchase.

Items 45.—Discount Talbot & Son's note of the 18th at our bank and get credit for the proceeds.

July 21

Item 46.—Enter this purchase.

July 22

Item 47.—Draw a check to the order of Cash for $50.00. Pay the stenographer and bookkeeper week's salary; balance for Mr. Mason's personal use.

Item 48.—Fill Mr. Bulwinkel's order of yesterday. Bill the peas at $.70 per bag, the peppers at $2.00 per bbl., and the eggs at $.36 per doz., terms, on acct.

Item 49.—Paid carfares amounting to 60c.

July 23

Item 50.—Fill the order of Mr. Chas. D. Klock. Bill the peaches at $1.75 per crate and the huckleberries at $.10 per quart, terms on acct.

Item. 51.—Paid spring water bill from Petty Cash $2.00.

Item 52.—Paid ice bill from Petty Cash $2.20.

Item 53.—Fill Mr. Leonard's order received today. The potatoes are to be billed at \$3.00 a bag and the sweet potatoes at \$6.00 per bbl., terms, on acct.

Item 54.—Fill the order of Mr. Brouch. Bill the pigeons at \$.50 per pair, the onions at \$2.00 per basket, and the broilers at \$.28 per lb. (they weigh 45 lbs.), terms, on acct.

Item 55.—Discount my own 4-mo. note for \$1,000.00 at our bank, and get credit for the proceeds.

July 24

Item 56.—Fill Mr. Somer's order received today. Bill the turkeys at \$.25 per lb. (they weigh 150 lbs.), the eggs at \$.28 per dozen, the peaches at \$1.75 per crate and the currants at \$.07 per quart, terms, on acct.

Item 57.—Fill the order of Mr. Kurke. The eggs are to be billed at \$.28 per doz., the cheese at \$.17 per lb. (it weighs 200 lbs.), and the butter at \$.30 per lb. (it weighs 300 lbs.), terms on acct.

Item 58.—Fill Mr. Doran's order of yesterday. Bill the huckleberries at \$.10 per quart and the wheat at \$1.00 per bu., terms, on acct.

Item 59.—Draw a check to the order of Petty Cash to reimburse the Petty Cash Fund for disbursements to date.

July 25

Item 60.—Send checks to the following, on acct.

W. S. Bishop & Co.	\$100.00	
Hunter, Walton & Co	250.00	
Greenspan & Brenner	50.00	
D. Finale & Co	300.00	
National Products Co	1830.49	(bill \$1867.85 less 2%)

Item 61.—Make the proper record.

Item 62.—Record properly.

Item 63.—Discount my own 3-mo. note for \$500.00 at our bank, and get credit for the proceeds.

Item 64.—Mr. Mason took for private use one tub butter weighing 60 lbs., at \$.25 per lb.

Item 65.—Sold to George Adams for cash, 5 bbls. cauliflowers at \$2.50 per bbl., and 100 bags peas at \$.70 per bag.

Item 66.—Sold to Frank Walsh, 10 crates white eggs at \$.36 per doz.

Item 67.—Fill Mr. Felix's order received today. Bill the eggs at \$.36 per doz., terms, on acct.

(Did you deposit all checks received today?)

July 27

Item 68.—Fill the order of Mr. Braunfels. Bill the eggs at \$.36 per doz.; terms, on acct.

Item 69.—Paid carfares, 75c.

July 28

Item 70.—Record this return and issue credit memo.

Item 71.—Record note received in full of acct.

Item 72.—Fill the order of Talbot & Sons. Bill the middling at $30.00 per ton, the wheat at $1.00 per bu., the cornmeal at $1.75 per bu., and the flour at $6.00 per bbl., terms, on acct.

Item 73.—Indorse Geo. J. Schuster's note of the 28th over to H. G. Miles & Co., on acct. Mr. Miles has agreed to accept it at face value.

July 29

Item 74.—Fill Mr. Jefferson's order of today. Bill the flour at $6.00 per bbl., terms, on acct.

Item 75.—Paid carfares from Petty Cash, 30c.

Item 76.—Draw a check for $55.00 to the order of Cash. Pay the stenographer and bookkeeper their weekly salaries; and give $25.00 to Mr. Mason for his personal use.

Item 77.—Bought $5.00 postage from Petty Cash.

July 30

Item 78.—Fill Mr. Jefferson's order. Bill the cheese at $.17 per lb. (it weighs 1,800 lbs.), terms, on acct.

Item 79.—Fill Mr. Madison's order. Bill the butter at $.28 per lb. (it weighs 1,140 lbs.), and the potatoes at $3.00 per bag, terms, on acct.

Item 80.—Sold to Frank L. Monroe for cash, 10 crates mixed eggs at $.28 a doz., and 10 bsk. onions at $2.00 per bsk.

July 31

Item 81.—Pay by check.

Item 82.—Record properly.

Item 83.—Give Hunter, Walton & Co. a 30-day note for $300.00, on acct.

Item 84.—Fill Mr. Johnson's order. Bill the cauliflowers at $2.50 per bbl., terms, on acct.

Item 85.—Fill Mr. Felix's order. Bill the pigeons at $.55 per pair, terms, on acct.

Item 86.—Paid carfares from Petty Cash, 65c.

Item 87.—Prepare a Petty Cash requisition for disbursements since July 24, and draw a check for the amount.

Post and take a Trial Balance.

Close all books of original entry.

Prepare a Statement of Assets and Liabilities employing the following data:

Expense Inventory, $9.00.

Furniture and Fixtures are now worth $160.00.

Merchandise on hand as follows: (The correctness of the quantities shown in the foregoing inventory should be carefully checked by the student.)

5	tons No. 1 Timothy	@ $24.00
5	tons Fancy Light Clover Mixed	@ 21.00
50	bags L. I. Potatoes	@ 2.25
400	bu. Wheat (Sept.)	@ .95
100	bu. Corn c. i. f.	@ .91
5	bags Beans	@ .60
70	boxes Cheese (2800 lbs.)	@ .15
15	tubs Butter (900 lbs.)	@ .28
100	bbls. Flour	@ 5.40
20	crates Eggs Mixed (600 doz.)	@ .26
10	crates Eggs White (300 doz.)	@ .23

Prepare an Income and Profit and Loss Statement
Close the books.

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